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Attack Is Repelled By Lebanese Army At Key Chuf Town

BEIRUT—The Lebanese Army repulsed an attack by Syrian-backed Druze and Palestinian forces on the key mountain town of Souk el-Gharb on Wednesday, and East Beirut was struck by the heaviest bombardment in this month's fighting, Beirut radio reported.

Attempts by the United States and Saudi Arabia to arrange a cease-fire were stymied, with both Lebanese and U.S. officials blaming Syrian intransigence for the breakdown of talks.

The state-run radio quoted a Lebanese Army communiqué as saying "the alien forces in Kaifoun and Aley attacked the army positions in Souk el-Gharb after preparatory heavy rocket and artillery bombardment."

"The army, retaliating with consecutive air and artillery strikes, forced the attackers to retreat, inflicting on them heavy losses in lives and equipment," the communiqué said.

The residence of the U.S. ambassador, Robert S. Dillon, was shelled for the second time in as many days. The ambassador was not at the hilltop residence in suburban Yarz when the rockets and artillery shells struck his bodyguard reported.

U.S. Navy warships fired about 30 shells from five-inch guns Tuesday night after shelling forced Mr. Dillon to abandon the residence.

There was no indication that Navy guns responded to Wednesday's shelling of Beirut and its suburbs, which the police called the heaviest since Israel's withdrawal.

The Syrian government-controlled newspaper, Tishrin said in an editorial Wednesday that "the United States has become a party in the fighting," and said this could lead to clashes between U.S. and Syrian forces.

In Washington, Secretary of State George P. Shultz blamed Syria for the intensified fighting near Beirut and charged Damascus may be seeking to dominate Lebanon.

Mr. Shultz supported a compromise worked out by the Reagan administration and congressional leaders to allow the 1,200 marines to remain in Beirut for 18 months.

"What we are doing in Lebanon is right," Mr. Shultz told the House Foreign Affairs Committee.

For the United States to "turn



Corazón Aquino, widow of the slain opposition leader of the Philippines, read an oath of freedom and democracy Wednesday to thousands of protesters in Manila at a rally to demand the resignation of the Marcos government.

7 Are Killed, Scores Injured In Manila Riot Against Marcos

By William Chapman
Washington Post Service

MANILA—At least seven persons were killed Wednesday night and scores injured in a confrontation between students and policemen that followed a large protest rally called to demand an end to the government of President Ferdinand E. Marcos.

It was the worst violence to grow out of a series of anti-government demonstrations that erupted after a Marcos foe, Benigno S. Aquino Jr., was slain a month ago. One student had been killed in an earlier encounter.

[The Associated Press said the authorities reported that more than 100 of those injured in the rioting had been hospitalized.]

[The official Philippine News Agency reported that a firefighter and a marine corporal had been killed by explosions in the rioting 300 yards (274 meters) from the Malacanang presidential palace. Hospitals reported one other firefighter and four civilians dead of gunshot wounds and other injuries.]

After the peaceful rally, several thousand students broke away from the huge crowd and marched on the palace, hurling stones, bottles and small home-made explosives against a police line that at first fell back toward the palace gates.

More soldiers and policemen were rushed in, and they pushed the students back with shields, clubs, buses, water hoses and gunfire. Scattered fighting went on for two hours.

The students burned two police buses used as barricades and left mounds of burning debris in the streets.

The main clash occurred near a bridge that is famous as the site of another battle with government troops in 1972.

The reinforced police line waited for some time behind shields and barricades as the young attackers showered it with small explosives known here as "pillboxes."

Then the police and soldiers counterattacked using clubs, guns and small explosives of their own. Gunfire erupted on two occasions. During the day, the police had



Ferdinand E. Marcos

Reagan Calls New Stance On Missiles 'Significant'

WASHINGTON—President Ronald Reagan said Wednesday that he has authorized new instructions for U.S. arms negotiators that represent "significant further development" of proposals aimed at reducing the risk of nuclear war in Europe.

The White House refused to disclose the new position, but a U.S. official said Tuesday that the changes would include a willingness to discuss limits on U.S. bombers that can carry either conventional or nuclear bombs.

Also, the official said, the Russians would be told that an accord would lead to the United States cutting back on Pershing-2 as well as cruise missiles targeted on their territory.

The fast-moving Pershings are considered a much graver threat by Moscow than are the cruises. A total of 572 missiles are due to be deployed in Western Europe beginning in December.

Mr. Reagan said the revisions were the outgrowth of consultations among allied leaders.

He said that arms negotiator



A protester lobbed a bomb at troops outside the Malacanang presidential palace during riots in Manila on Wednesday.

been on the streets unarmed in compliance with government instructions to use caution. The military had warned that the rally would be infiltrated by radicals.

After the main battle ceased, there were sporadic incidents in several parts of Manila. A nonviolent protest swept through the financial district in suburban Makati.

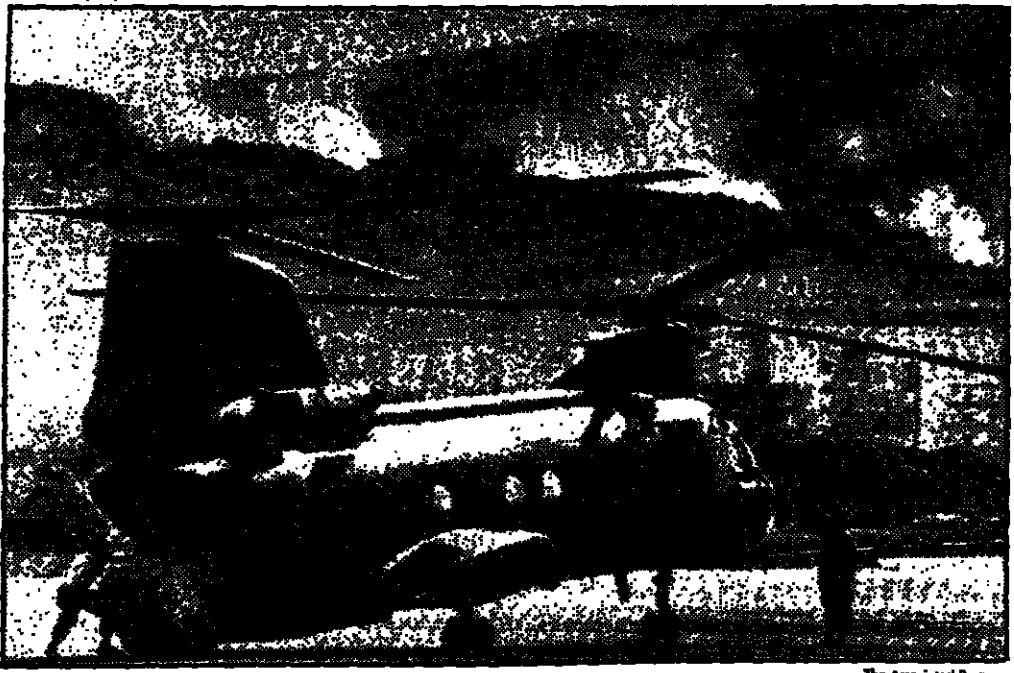
The afternoon rally drew one of the largest crowds in the history of anti-Marcos protests here, perhaps exceeded only by the one that accompanied the funeral of Mr. Aquino. Estimates of its size ranged from 100,000 up to a half-million people.

It was led by Mr. Aquino's widow, Corazón, who made a pledge of continued struggle against Mr. Marcos. It was recited back by the crowd that overflowed a central Manila plaza less than a mile from the presidential palace.

The crowd listened in stifling heat and for four hours to their leaders, who demanded that the president resign and who called for the memory of Mr. Aquino to be kept alive.

"I will not allow fear to stop me," Mrs. Aquino told the crowd. "Regardless of the cost I will defend freedom."

At noon, with the opposition visibly building in the nearby streets, (Continued on Page 2, Col. 5)



U.S. marines unload supplies from a helicopter Wednesday at Beirut International Airport as smoke rises in the hills from battles between the Lebanese Army and Druze militiamen.

Reagan Says UN Delegate's Remarks Meet With 'Hearty Approval' in U.S.

By David Hoffman
Washington Post Service

WASHINGTON—President Ronald Reagan said Wednesday that a U.S. official "had the hearty approval of most people in America" when he suggested that the United Nations would be welcome to move its headquarters out of the country.

In a luncheon interview with a group of broadcast journalists, Mr. Reagan referred to the comments earlier this week of a U.S. delegate, Charles M. Lichtenstein, who suggested that the United States would welcome the departure of the United Nations from American soil.

"I think the gentleman who spoke for us the other day," Mr. Reagan said, "had the hearty approval of most people in America in his suggestion that we weren't asking anyone to leave but if they choose to leave, good-bye."

Mr. Lichtenstein's comment came in response to criticism from a Soviet official after Foreign Minister Andrei A. Gromyko's decision not to attend the General Assembly session beginning this week because of travel restrictions imposed on him by the United States.

Mr. Reagan also said Wednesday that the chief U.S. delegate to the United Nations, Jeane Kirk-

patrick, had made "an interesting suggestion... which should be thought about."

"Maybe all those delegates should have six months in the United Nations meeting in Moscow and then six months in New York," he said. "It would give them an opportunity to see two ways of life. And we'd permit them to go."

Mrs. Kirkpatrick made the suggestion in a television interview.

Before Mr. Reagan's comments, the chief presidential spokesman, Larry M. Speakes, said that the United States would "meet our obligations" under the treaty that established the United States as the host country for the UN headquarters.

Questioned whether, as a matter of policy, the administration wanted the world organization to remain in the United States, Mr. Speakes said, "Yes, sure."

Mr. Reagan is scheduled to speak to the General Assembly on Monday.

The White House announced that he would hold a reception Sunday for visiting diplomats attending the General Assembly meeting, but the criteria for invitations to the reception appear to exclude the Soviet Union.

Mr. Speakes said the reception would be for visiting heads of gov-

Thatcher Says Soviet Threats Won't Halt Missiles

BONN—Prime Minister Margaret Thatcher of Britain said Wednesday that neither threats nor propaganda from the Soviet Union would block deployment of U.S. missiles in Europe this year.

In an interview on West German television, Mrs. Thatcher also said that a pacifist campaign would not succeed in persuading the West to drop plans to deploy cruise and Pershing-2 missiles to counter Soviet SS-20 missiles that have been targeted against Europe.

In other developments:

■ A Belgian Foreign Ministry spokesman said Wednesday that the West was ready to continue talks with the Soviet Union even after missile deployment starts. The Soviet Union has not committed itself to pursuing the talks after the missiles are installed.

■ A disarmament expert for the West German opposition Social Democratic Party, Egon Bahr, said Wednesday that the Soviet president, Yuri V. Andropov, had shown new evidence of negotiating flexibility in a letter on nuclear arms limitation. But the U.S. State Department had said earlier that Mr. Andropov's proposal was not new.

■ The U.S. Senate Foreign Relations Committee decided Tuesday

France Said to Decode Swiss Bank's Client List

PARIS—French customs officials, with the help of army code and computer experts, have discovered the names of more than 5,000 French residents holding illegal accounts in a Swiss bank, the French satirical weekly Le Canard Enchaîné said Wednesday.

The story, published in advance copies of Thursday's edition, gave no source for the information. It said bank officials had denied the existence of any list of names of French clients.

French customs authorities declined comment.

The newspaper said French customs officials had managed to obtain three coded lists of French account holders of the Union de Banques Suisses since last November.

After the latest list was passed to the customs officials at the beginning of this year by a former UBS employee, the newspaper said, the officials enlisted the help of French Army code experts, who after several months' work managed to decode the lists with the help of a computer.

The newspaper said that because the list contained only names, the investigators, a total of 400 police and customs officers, used France's income-tax computers to track down the addresses of many of the people listed.

Le Canard Enchaîné said that the investigators had been unable to connect some common French names with the proper addresses, but still had managed to trace more than 5,000 people.

It said that in the past two weeks hundreds of people on the lists, when contacted by investigators, had admitted holding money in the Swiss bank. France has strict rules governing the transfer of funds by residents to foreign accounts.

The newspaper said that documentation developed during the investigation would be used as evidence in court trials.

Le Canard Enchaîné said that when it approached officials of UBS for comment, the officials maintained that the lists were false. It quoted one as saying: "It is impossible for them to be authentic. We do not have a list of French clients."

The officials were aware that police inquiries were being made, the newspaper said. It said the first list fell into the hands of customs officers' possession in November 1982, when a convicted swindler tried to sell it to the police.

Officials were unable to break the code, Le Canard Enchaîné said.

But a few weeks later a second list was discovered by chance in the automobile of a UBS official crossing the French-Swiss border. When the third list was passed secretly to customs officers by the former UBS employee, the army code and computer experts were called in, the newspaper added.

"For UBS, this misadventure which has hit many of their clients is a catastrophe," it said, adding, "Confidence and discretion are the lifeblood of banking prosperity" for the Swiss.

INSIDE

■ Walter F. Mondale, the front-running Democratic contender for the White House next year, rose to the top through hard work, timing and a mastery of detail. Page 3.

■ The removal of a statue of Franco has raised controversy and jitters in Spain. Page 5.

■ The U.S. economy is growing at a 7-percent annual rate, the government estimated. Page 13.

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■ The battered Europe that became today's affluent society is the subject of Richard Mayne's latest book, "Postwar." Mary Blume reports. Weekend

Mondale: A Master of Detail

Democrat Adapts Easily but Stays True to Early Beliefs

By Michael Barone

WASHINGTON — When Walter F. Mondale was studying European history at Macalester College in Minnesota, he went to a rally for Henry Wallace, who was running for president. It was 1948, just after the Soviet takeover of Czechoslovakia, and "Wallace defended it. I got up and walked out," Mr. Mondale says.

Mr. Mondale decided right there that he wanted nothing to do with Wallace's branch of the Democratic Party.

In those years, at least according to recollections, few students were interested in the minutiae of European politics; in a time of economic uncertainty, just after a major war, they were working hard to get ahead.

And it does not seem likely that the 20-year-old Mr. Mondale showed many outward signs of a particular interest in politics. He was good at sports in high school and remembered "laughing all the time."

Yet, by the end of 1948 he had managed two winning campaigns and had made a significant beginning on making the contacts — and establishing the record — that make him today the front-runner for the Democratic presidential nomination.

Mr. Mondale had the good fortune to become politically active at a time when Minnesota's Democratic-Farmer-Labor Party was young. But leaders like Hubert H. Humphrey — then 37 years old — did not step into a vacuum.

Mr. Mondale was working in a canning factory in Faribault, near his parents' home in the tiny town of Elmore, and asked his friend, Donald Fraser — later congressman and now mayor of Minneapolis — if he could help organize for Humphrey in the mostly rural Second Congressional District.

Mr. Fraser said he had no money, and Mr. Mondale asked, "Would you object if I did it anyway?"

The Humphrey forces won control of the Democratic-Farmer-Labor Party and carried the state for Truman and Humphrey.

Mr. Mondale's father knew him well. The fact is that in each case he worked himself into a position where his appointment was the likely decision. No one anticipated that the office of state attorney general would be open in April 1960; the incumbent, Miles Lord, had a ferocious temper, and resigned after a dispute with Mr. Freeman.

Mr. Mondale, who had proved himself by careful attention to detail, was a logical appointee, although only 32.

Once in office, he studied the statute books. He found powers that other attorneys general had never used, and — using them expansively but carefully — established himself as the Democratic-Farmer-Labor Party's strongest vote-getter, after Senator Humphrey and Senator Eugene J. McCarthy.

He was also given the task of negotiating the difficult details in the Mississippi Freedom Democratic Party's credentials challenge at the 1964 national convention. So Mr. Mondale was the natural choice to succeed Humphrey when he became vice president.

Without Mr. Lord's resignation and Humphrey's elevation, it is unlikely that Mr. Mondale would have risen to high statewide office by age 36. But he was a very good bet to be governor or senator sooner or later, and perhaps a national candidate as well.

He was criticized by some, including Jimmy Carter, for withdrawing from the 1976 presidential campaign as early as 1974. Perhaps he perceived that there was not much of an opening that year for a candidate who, by that time, approached issues as a Washington insider.

Mr. Mondale's political career is a story not of a listless protégé, but of an ambitious man who worked hard, mastered details, defused difficult problems and moved relentlessly ahead of others, some of whom started out with more advantage.

Among the presidential candidates, only Ernest F. Hollings has a career in electoral politics that goes back as far: Mr. Mondale is one of the few active politicians (Ronald Reagan is another) for whom the post-World War II fights between Soviet sympathizers and anti-Communist liberals were a searing personal experience.

Mr. Mondale adapts to new issues and new times. Yet his basic standards, and his driving ambition, do not seem so different today from those of the 20-year-old college student who came from the tiny town of Elmore and suddenly launched a political career that has already turned out as successfully as just about any American of his generation.

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Walter F. Mondale, the Democratic front-runner.

Advisers Urging Reagan To Seek Space Station

By John Noble Wilford

NEW YORK — President Ronald Reagan is said to be under pressure from his political strategists to endorse a major new space endeavor, the orbiting space station, as a tactical move against Senator John Glenn, the former astronaut who could be Mr. Reagan's Democratic opponent in the next election.

Administration officials say the president is being encouraged to announce the project, estimated to cost \$6 billion to \$9 billion by 1991, to neutralize Mr. Glenn's "hero image" and demonstrate a commitment to maintaining U.S. leadership in space technology.

The National Aeronautics and Space Administration has lobbied vigorously in recent months to win support for the space station as "the next logical step" in the nation's space program. In July, the agency said that if development began next year, a large space station could be sent into orbit by 1991.

Although the project has strong backing in Congress, in the aerospace industry and among some in the White House, opposition has been raised by the Defense Department, the Central Intelligence Agency and the Office of Management and Budget.

Both the Pentagon and the CIA contend that there is no military or intelligence-gathering mission for the space station that could not be done as well and at less cost with unmanned satellites.

The National Academy of Sciences issued a report last week saying there was no immediate scientific need for the station, but acknowledging "the possibility that a suitably designed space station could serve as a very useful facility in support of future space science activities."

Bruce Abel, press secretary to the president's science adviser, George A. Keyworth Jr., emphasized Tuesday that no decision has been reached by the administration and that no announcement appeared to be imminent.

Report by GAO 'Raises Questions' About Meese Loan, 3 in House Say

By Charles R. Babcock

WASHINGTON — Three members of the House of Representatives have asked the Justice Department to review a General Accounting Office report that "raises questions" about the handling of \$60,000 in loans given to Edwin Meese 3d, counselor to President Ronald Reagan, by a presidential appointee.

The report, released Tuesday, said Mr. Meese owed \$20,000 in interest on the loans as recently as last month, including \$7,500 that he failed to report as a gift on his latest financial disclosure statement.

The loans were arranged in 1981 by his personal accountant, John R. McKean, while Mr. Meese and another McKean client, the White House deputy chief of staff, Michael K. Deaver, were getting Mr. McKean a \$10,000-a-year presidential appointment to the U.S. Postal Service board of governors.

Mr. Meese said Tuesday that the GAO report showed that there was "no wrongdoing" and that the \$60,000 loan and \$20,000 in interest were paid within the last month, after he took out an \$80,000 bank loan.

"The important thing is that the loan has been paid back, as was intended," Mr. Meese said. "That was always the case." He said he would, if necessary, work with the White House counsel, Fred F. Fielding, to amend his financial disclosure statements.

Mr. McKean could not be reached for comment.

In a letter Tuesday to Attorney General William French Smith, three Democratic members of House Post Office and Civil Service Committee said the GAO report "raises questions concerning the circumstances surrounding the nomination and confirmation of Mr. McKean."

Representative William D. Ford of Michigan, chairman of the committee, and two of his subcommittee chairmen, Robert Garcia of New York and Mickey Leland of Texas, also sent copies of the report to Mr. Fielding, the Senate Ethics Committee, and the Office of Government Ethics, which reviews executive branch disclosure forms, and asked each of them to review the matter.

Mr. Meese and Mr. McKean have said there was no connection between the loans and Mr. McKean's appointment.

A Justice Department spokesman said Tuesday that Attorney General Smith had no comment. Mr. McKean arranged a total of \$60,000 in loans to Mr. Meese in July and December, 1981, from an office "investment pool" of other

clients' money, the GAO report said. Mr. Meese's financial disclosure statements show that he put up no collateral for the loans in 1981, that the principal was not due until Mr. McKean demanded it and that the interest, from 18 to 21 percent, was payable annually.

Mr. McKean was nominated in November 1981 to fill a five-year opening on the Postal Service board. The report noted that Mr. McKean made no mention of his "fiduciary" relationship with Mr. Meese when asked about such responsibilities during his confirmation process.

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RENT-A-CAR

Panel Accepts Open-Air Gene Testing

Review Agency Opposes Proposal by 2d U.S. Firm

By Lee May

WASHINGTON — A controversial plan to release gene-altered microbes into the environment has been tentatively approved by a National Institutes of Health committee, but the panel advised rejection of another such experiment, according to committee members.

The Recombinant DNA Advisory Committee met in a closed session Monday to consider the two experiments, which two companies have proposed. Several committee members said that Cetus Corp. of Madison, Wisconsin, was given tentative approval to test whether it could make plants more resistant to disease.

"We agreed in principle, but requested them to make some clarifications," Robert E. Mitchell, a lawyer and committee member from Whittier, California, said in an interview Tuesday.

However, a proposal by Biotechnology International of Cambridge, Massachusetts, for increasing the level of nitrogen available to alfalfa plants, was turned down. "We didn't feel they were ready to go into the open field," Mr. Mitchell said, adding that the committee called for more greenhouse testing.

John F. Marsden, Biotechnology's vice president of marketing, said, "We'd always planned to do greenhouse testing, but we didn't think it was necessary" at the current stage of research. He added that the rejection Monday "does not diminish our enthusiasm for our program."

The committee has no legal power over companies' experiments, but the companies usually seek committee approval voluntarily in order to head off public criticism and the threat of lawsuits. Officials of the National Institutes of Health are expected to announce their decisions on the two proposed experiments within six weeks.

Such experiments have generated intense debate. On Monday, Jeremy Rifkin, an opponent of the experiments, tried unsuccessfully to obtain a court order to open the committee meeting to the public.

Last week, Mr. Rifkin, another individual and three environmental groups filed suit in federal district court in Washington against the National Institutes of Health, seeking to stop a California experiment that the DNA committee had approved. That experiment would release into the environment gene-engineered microbes designed to help plants block the formation of frost on their surfaces.

The suit charged that the committee did not have sufficient expertise to make its decision. Mr. Rifkin called the experiment "ecological roulette," saying that the effects on the environment were unknown.

Partially in response to such charges, the committee decided Monday to give more consideration to moral and ethical concerns when making recommendations.

Mr. Mitchell proposed that clergymen, philosophers or ethicists be appointed to the panel as openings occur.

And on Tuesday, he said that the committee had agreed and that at least one ethicist will be among the six new members nominated to the Department of Health and Human Services for committee appointments this year.



A bronze equestrian statue of Franco, which had stood in Valencia since 1964, was pulled down and removed Sept. 9 by city workers, who were masked to avoid rightist reprisals.

An Echo of Franco Troubles Spain

Old Valencia Statue Becomes New Cause for Rightists

By John Darton

MADRID — "Franco Falls in Valencia After 12 Hours of Fighting" screamed the front-page headline in a Madrid newspaper recently. It was eye-catching, and only a bit misleading.

After years of hesitation and waffling, the municipal authorities of Valencia finally decided to do what they had promised four years ago: remove a bronze equestrian statue of Generalissimo Francisco Franco that had stood atop a towering stone pedestal in the central plaza since 1964.

The mayor of Valencia is a Socialist, but rightist breezes can still stir the coastal city. So the operation was carried out in the dead of night.

It turned into a symphony of errors with an ominous score.

A mobile crane was sent to the scene at 4:30 on the morning of Sept. 9, its license plate taped over to thwart identification. But it was not able to hoist the 900-pound (409-kilogram) statue. As workers sweated and grunted, attaching cables and bringing in a second crane and then a third, a crowd gathered, some to cheer, others to jeer.

Rightists brought bouquets of flowers, then flags, then megaphones. A young man scaled the statue, banner in hand. He disconnected the cables and led a chorus of "Cara al Sol," the fascist hymn.

The national police, often used in Franco's time to put down disorders from the left, stood by passively.

The statue was not brought down until late in the afternoon. By that time, a volunteer squad of 12 workmen, who wore white ski masks to hide their identities, had been pelted with stones, and so in a moment of triumph they raised their hands in victory salutes.

The statue broke in two and was put inside a sand truck. To vent its anger, the crowd attacked City Hall, breaking a few windows and overturning a car. The crowd was dispersed by the police, who fired rubber bullets.

Anywhere else, the incident might have been insignificant, even funny. But in a Spain that is still confused over how to deal with the memory of its former dictator and still jittery over his appeal to conservative forces rooted in the army, the church and the banks, it was not at all a laughing matter.

Francoism is dead — some say it began to die even before Franco breathed his last on Nov. 20, 1975.

But from time to time the ghost of "El Caudillo" rises up to walk the land, rattling chains at its newly clothed democracy.

The physical symbols of his rule can still be found, if one knows where to look for them. They are treated cautiously for the most part, like photographs taken down years after a bad marriage.

"Avenida del Generalísimo" has been changed to "Castellano," and "José Antonio Primo de Rivera" is back to "Gran Via."

But there is still a statue of Franco in an out-of-the-way square in the capital. The guide will not point it out, but a portrait of Franco, astride a horse in 19th-century military plumage, still hangs in a room in the Royal Palace.

There is still a Fundación Nacional Francisco Franco, a foundation for good works, although someone has gone around with a spray can to blacken his name off all the signposts.

And there are still groups of young men and women — the men with a distinctive hairstyle shorn of sideburns — who gather on the anniversaries in blue shirts to shout slogans and give straight-arm salutes to the fascist banner.

The 16th-century El Pardo palace where Franco lived for four decades has been converted to a combination museum and guest house for state visitors.

Fidel Castro, if he visits next year, can sit behind the huge wooden desk where Franco signed his decrees and dine in the room nearby where his cabinet read them without changing a comma.

The most spectacular monument of all is the Valley of the Fallen, a chilling shrine in the Sierra de Guadarrama to the civil war dead. They are entombed in a subterranean marble crypt the length of three American football fields, under a granite cross that soars to high, 492 feet (149 meters), that it can be seen as a gash in the mountain range from the outskirts of Madrid, 36 miles (58 kilometers) away.

Franco himself is buried there in megalomaniacal splendor, along with José Antonio Primo de Rivera, the founder of the Falangist movement.

That fact alone — plus the memory of the prisoner-of-war labor that built the monument in the late 1940s — makes the gash in the mountain range a veritable sight to many people.

The men without sideburns like to assemble at the cross to perform their nostalgic rituals.

This year on July 18, the anniversary of the outbreak of the civil war, the Socialist government refused them permission to use the shrine, and so instead they crowded into a small church in Madrid for a Mass attended by Franco's widow, Carmen Polo.

In Valencia, the army's captain-general of the region made clear his displeasure at the way the statue was handled.

The mayor, Ricard Pérez Casado, agreed to have it reassembled and someday placed in a museum of military history. A statue of Simón Bolívar was destroyed by rightist vandals in retaliation, and Franco's empty pedestal, surrounded by flags and posters, was marked with the words, "Caudillo, we will avenge you!"

On the weekend, the authorities destroyed the pedestal.

Democrats Seek to Curb Sale of Nuclear Material

The Associated Press

WASHINGTON — Key Democrats in the House of Representatives have begun a campaign to tighten international sales of nuclear material.

India, Argentina and South Africa were singled out by the congressmen as U.S. nuclear customers that posed "a serious proliferation risk." The lawmakers testified Tuesday before a subcommittee of the House Foreign Affairs Committee.

"As the number of nuclear nations grows, it is inevitable that at some point nuclear weapons will be used in circumstances which might now seem implausible," said Representative Morris K. Udall of Arizona, chairman of the House Interior Committee.

"In the next 15 or 20 years we're not going to have six or seven nations with nuclear weapons, we'll probably have 25, and they're not all going to be nice little English ladies speaking the English language like Mrs. Thatcher or the French or some of our trusted allies," Mr. Udall said. "They're likely to be unstable governments, governments with a revolutionary twist who will be out to do more than just make threats about nuclear weapons."

Mr. Udall was joined before the committee by Representatives Howard E. Wolpe of Michigan and Edward J. Markey of Massachusetts, leader of the nuclear-free movement in the House.

The three congressmen received broad support from their colleagues on the panel for legislation to strengthen the Nuclear Nonproliferation Act of 1978, which bars the United States from exporting nuclear material in countries that refuse to agree to open their power plants to international inspection.

Mr. Wolpe said the tightening was needed because President Ronald Reagan's administration appeared intent on continuing to promote nuclear exports to risky countries. He noted that in recent months the administration had approved plans to supply nuclear material to India and Argentina.

Mr. Markey and Mr. Udall said Washington should pressure its allies to curb sales.

The United States should agree with the French, West Germans, Swiss, Belgians and others that all had failed to live up to standards and that they should make a new beginning, Mr. Markey said.

The United States should threaten the other supplier countries with penalties "in terms of our commercial relations, our diplomatic relations, other relations," Mr. Markey said. "If we exercised that clout, then we could have some results."

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U.S. Missile Fired by Mistake

United Press International

CHINA LAKE NAVAL WEAPONS STATION, California — A Navy A-6E Intruder aircraft inadvertently launched an unarmed laser-guided Skipper missile Tuesday over an isolated area of the Mojave Desert. A spokesman said no injuries were reported.

Hottest August on Record Giving Way to Fall in U.S.

Washington Post Service

WASHINGTON — Last month was the hottest August on record in the United States, according to the National Weather Service. In fact, it was probably the hottest of this century, though complete records date back only to 1931.

The average temperature for August was more than 2.2 degrees centigrade (4 degrees Fahrenheit) above normal in more than half the country. Temperatures were especially high in the East and Midwest.

"The combination of heat and drought was most severe in the central Mississippi valley in an area extending from Kansas and Nebraska eastward into Indiana and Kentucky, and in a belt along the East Coast from the Carolinas to New Jersey," the weather service said. Fayetteville, North Carolina, and Grand Island, Nebraska, had all-time highs of 43 degrees centigrade (110 Fahrenheit).

Although the temperature has been hitting 13 degrees centigrade (55 Fahrenheit) again this week in the East, the picture is changing, the weather service said. There is currently cool weather in much of the country and early snow in the Rockies.

U.S. May Suspend Efforts to Regulate Exposure to Toxins in Workplaces

Washington Post Service

WASHINGTON — The Occupational Safety and Health Administration is considering dropping efforts to set workplace exposure standards for 116 potentially hazardous substances.

The agency has been working on the project for years. More than a dozen of the substances are known to cause cancer in laboratory animals. It would leave only six substances against which the agency is proceeding actively.

An internal task force told R.

Leonard Vance, director of the agency's health-standards programs, that, as a practical matter, agency efforts to set on-the-job standards for most substances already had been suspended because of manpower shortages, controversy, litigation "and other reasons."

By officially deleting them from its workload now, the task force said, the agency "would notify the regulated industries that OSHA has no intention of moving on these chemicals, relieving them of any anxieties about possible impacts on their markets or production."

Fords to Have Tried and True Horns Again

The Associated Press

DEARBORN, Mich. — Because of customer complaints, the Ford Motor Co. is planning to bring back its tried and true horns.

The company said it was testing a new horn system that would be quieter and more reliable than the current one.

The new system would be installed on all new Ford cars and trucks starting next year.

The current system has been criticized for being noisy and for having a short lifespan.

Ford officials said they were confident the new system would solve these problems.

The company also said it was testing a new horn system that would be quieter and more reliable than the current one.

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González Is Backed for Military Stand But Is Criticized on Economic Issues

Reuters

MADRID — Prime Minister Felipe González was supported Wednesday for his firm stand against military meddling in politics but was criticized for sidestepping major issues in a parliamentary debate on Tuesday.

Adolfo Suárez, a former prime minister, and two influential newspapers, El País and Diario 16, said Mr. González's assertion that the armed forces had no role to play in politics in Spain was important and timely.

However, Manuel Fraga, the opposition leader, said Mr. González was misguided in his optimistic assessment of the economy and ambiguous in his foreign policy.

Other critics accused the prime minister of failing to mention either the nationalization of the huge private company Rumasa or current industrial unrest.

The two-day debate continued Wednesday with speeches by leaders of smaller opposition parties.

Santiago Carrillo, the Communist leader, said after listening to Mr. González's speech that he was more convinced than ever that the Socialists would back out of their commitment to hold a referendum on continuing Spanish membership in the North Atlantic Treaty Organization.

Mr. González said his government was not going to be rushed into setting a date for the vote. Opinion polls indicate that a majority of Spaniards would vote to quit the alliance.

Mr. Fraga, who said the Socialists' foreign policy was erratic, warned that leaving NATO would prejudice a program to modernize the armed forces. He charged that crime and terrorism were rising.

Manufacturer Checks Jets' Life Rafts

By David Bird

NEW YORK — The manufacturer of emergency life rafts used on some Boeing 747 airplanes is trying to determine whether the excessive leakage found by United Air Lines was a problem with all of its life rafts or just the ones sold to United.

Foster Smith, a spokesman for the manufacturer, the B.F. Goodrich Co. of Akron, Ohio, said Monday that the same type of raft was being used on "60 to 70 747s operated by about half a dozen foreign airlines." He said the foreign carriers had been notified of the problem, but had not replied.

United Air Lines suspended all flights over water by its 747s Sept. 14 after routine inspection found that some of the rafts exceeded the maximum leak rate set by the manufacturer. That rate specifies a loss of no more than one-tenth of a pound of air pressure in the first two hours.

Rafts on eight of the United 747s have been certified as safe and the planes have been returned to routes over water, a spokeswoman said Monday. The rest of the planes will be returned to service over water as tests and repairs on the rafts are completed, she said.

Each 747 is equipped with eight rafts, and each raft is designed to hold 60 people.

Mr. Smith, who is Goodrich's vice president for corporate communications, said United was the

only U.S. airline that had bought the rafts.

He said the rafts, which were first sold two years ago, were a "new generation" product that combined the rafts and the escape chute from the plane in one package.

Mr. Smith said it was still uncertain what had caused the leaks, which were found in the fabric wrapped around the air bottles used for inflation. He said the leaks had been repaired by the application of sealant.

Kay Lund, United's director of corporate communications, described the leaks as very small.

"Basically we still have confidence in the rafts and we're working with B.F. Goodrich to solve the problem," she said.

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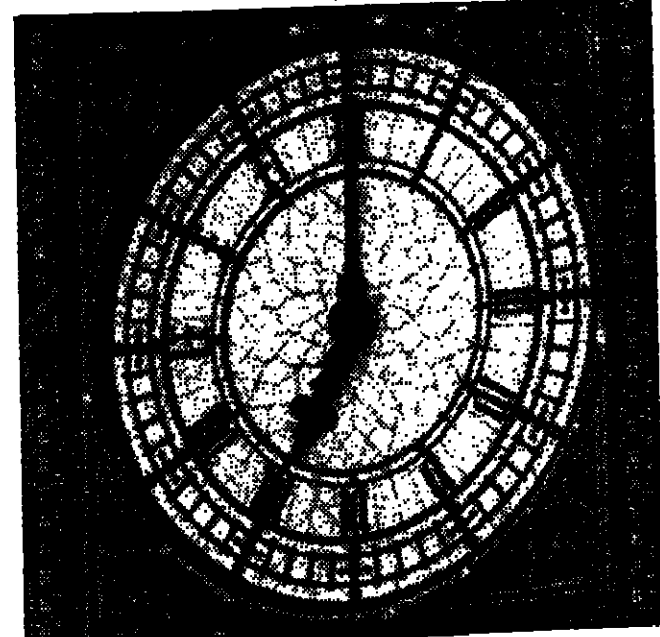
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Americans the Fight

Broder

mobile public opinion on the economic issues and the in what both young and old have political advantage in the era of governmental policy. Mr. Braden and his allies in the union of labor, senior citizens, community organizations are building a reputation for door-to-door canvassing and grass-roots efforts against Reagan administration. Mr. Braden was in Washington to announce that he is on his way toward building a new organizational structure and raising the \$1.5-million budget for the grass-roots conservative lobby. He has recently won the endorsement of President Reagan.

With the stated aim of electing economic and national issues through local forums, seminars, the Braden group is planning to have a network of local, state, and congressional offices. What is striking about the organization is a strong belief that the party is ready for the kind of no-holds-barred fight for which they have been.

Mr. Braden's eyes glaze with pleasure when he tells how the senior citizens in Milwaukee to publicize their plan to oppose the administration. Mr. Braden says the business and professional people he is recruiting will form a grass-roots conservative lobby in every congressional district. What he suggests is that we are emerging from the apathy that developed after the Vietnam war. He says that the war was the last time we had a national election. Some of this reflects the economic times of severe unemployment. Some of it is a reaction to the about-face of the administration in Washington. Some of it is the wish that support in the Congress and the Senate from some of the last time on that an election really changed the direction of government. There are those who also speak the polarization of the political system. Braden and his allies are taking a bold step in the apathy that has been the last time we had a national election.

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SCIENCE

Despite Heat, Earth Said to Be in Icy Age

By Walter Sullivan
New York Times Service

NEW YORK — Despite the long hot summer, scientists insist that the Earth is currently going through what they say, comparatively speaking, is an Icehouse Age. Increased fuel burning, however, is supplying enough carbon dioxide to tilt the climate slightly back again toward the hotter extremes that existed millions of years ago.

The theory would help explain why, as proposed last week, many of the larger plants and animals evolved near the North Pole. The concept, advanced this month by separate authors in the journal *Nature* and in the *American Journal of Science*, sees long-term changes in carbon dioxide content of the atmosphere as the critical element.

These, it is proposed, have produced prolonged periods dominated by a "greenhouse effect" of abnormal warmth, alternating with an "icehouse effect" in which the polar regions become frigid and ice ages are likely to occur. Currently, according to this hypothesis, the world is under the influence of an "icehouse effect," although increased fuel burning is adding enough carbon dioxide to the air to tilt the climate gradually toward the other extreme.

There is ample evidence that much of the world used to be hotter than it is now. So hot, in fact, that

more than 50 million years ago the land areas nearest the North Pole harbored sequoias, ancestral horses, alligators and lemurs.

Climate specialists are now arguing that the Earth was not because there was far more carbon dioxide in the atmosphere than at present. The gas would have absorbed heat radiation that would otherwise have been reflected back into space.

Such a "greenhouse effect" could have warmed the climate on Earth as it has on Venus, where the atmosphere contains so much carbon dioxide that the planet's surface is at more than 800 degrees Fahrenheit — far hotter than a normal oven.

Even though today carbon dioxide in the air is steadily increasing through combustion of coal, natural gas and petroleum products, it is far from the high levels postulated for some past epochs.

An explanation for its apparent abundance between 50 million and 150 million years ago, spelled out in the *American Journal of Science*, is that intense volcanic activity during the Cretaceous period belched great volumes of carbon dioxide into the atmosphere and flooding

of the continents impeded its removal from the air by rock weathering.

At that time the supercontinent Pangaea was breaking up into the continents of today, and new oceans such as the Atlantic were forming between them. The currently favored explanation for the high sea levels is submarine volcanic activity carrying the continents away from one another and raising the ocean floors.

It is proposed that volcanic activity greatly increased the atmosphere's carbon dioxide in two ways: by spewing the gas directly into the atmosphere and by submerging large land areas. Carbon dioxide in the air combines with silicate rocks to produce such carbonate minerals as dolomite, but with extensive areas under water such removal of atmospheric carbon dioxide by weathering was greatly curtailed.

These and other factors that have determined the carbon dioxide content of the air in geologic time are analyzed in the *American Journal of Science* by Drs. Robert A. Berner of Yale University, Antonio C. Lasaga of Pennsylvania State University and Robert M.

Garrels of the University of South Florida.

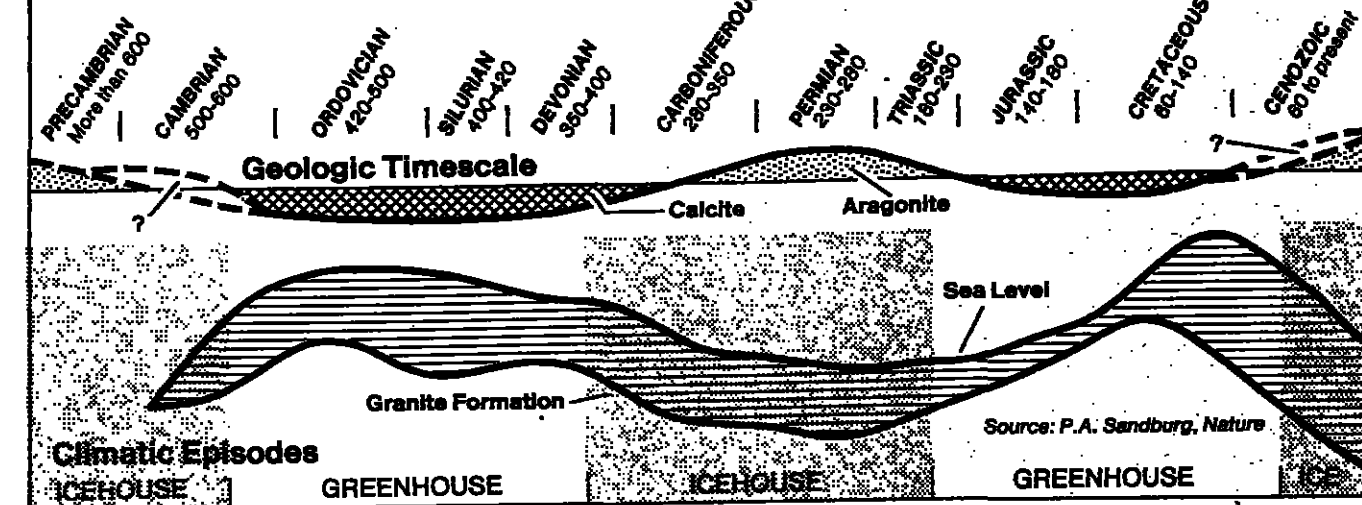
Evidence for periodic enhancement of carbon dioxide in this manner is presented in *Nature* by Dr. Philip A. Sandberg of the University of Illinois in Urbana. It focuses on changes in the crystal structure of tiny calcium carbonate spheres precipitated in the oceans during various epochs of Earth's history.

During periods of enhanced carbon dioxide, according to the hypothesis, these spheres, or "ooids," were predominantly in the calcite form. At other times, including the present, they have been of the type known as aragonite.

The Precambrian Era, more than 600 million years ago, and the Permian Period, 250 million years ago, were, like the present, "aragonite" epochs. The long intervening periods were presumably carbon dioxide-dominated. They coincided with worldwide formation of granite structures probably associated with intense volcanic activity and continental flooding.

Dr. Berner noted in an interview last week that carbon dioxide enhancement of the atmosphere as an explanation for the warm Cretaceous climate has been supported by a computer simulation of global climate during that period by Dr. Eric Barron, at the National Center for Atmospheric Research in Boulder, Colorado. He was exploring the effects on climate of the radically different geography of the Cretaceous.

As Dr. Barron explained, computer simulations of atmospheric behavior at that time yielded arctic temperatures 30 to 40 degrees Fahrenheit warmer than now. Yet the geologic record, he said, indicated temperatures 60 or 80 degrees higher. If, however, he increased the carbon dioxide content of the air in his computer model fourfold, the computer indicated a warming close to that reported by geologists. Equatorial temperatures, however, were not much higher than today.



Clues to Universe Sought in Meteorite's Crystals

By George Alexander
Los Angeles Times Service

LOS ANGELES — In a way, said John Armstrong, a California Institute of Technology geochemist, scientists who study meteorites are a lot like archaeologists.

"They're looking for pottery that hasn't been smashed to dust, so they can tell something about what it looked like originally, what it was used for and so learn something about the culture that produced it," he said of the archaeologists.

"We're looking for crystals that are still largely intact so that we can tell something about what the early solar system looked like."

In the Allende meteorite that fell on northern Mexico in 1969, Mr. Armstrong and his 1,000 or so colleagues around the world have found their fondest hopes fulfilled — and then some. Allende's crystals have already fueled a large number of productive experiments.

Even today, 14 years after it crashed, there are still enough Allende crystals — and they are

still unusual enough in their mineralogy, structure and chemistry — to spur a new round of investigations now under way into the earliest phases of the solar system.

As it has turned out, the Allende meteorite impacted more than the Earth. It plunged into modern science's consciousness at a time when a seminal theory about the formation of the solar system had just been advanced and an array of new instruments had been developed.

Now, with some newer, more sophisticated instruments, different experimental approaches and a more positive spirit of cooperation, scientists at California Institute of Technology, the University of Chicago, the University of Houston and other research laboratories around the world are trying to answer some of the perplexing questions their earlier studies of this meteorite have raised.

Allende suggested, for example, that the solar nebula, that primordial cloud of gas and dust from which the sun and the planets eventually formed, had been hot stuff, literally: around 1,500 degrees or more Fahrenheit. This was, and continues to be, hard for astronomers and astrophysicists to accept because they don't see any other clouds in the universe quite so hot.

The evidence of the meteorite also indicated that an exploding star, either a nova or a supernova, had injected additional matter into the solar nebula and perhaps had caused the disturbing force that caused the cloud to begin its collapse. Although experiments by scientists at the University of California, San Diego, have called this proposal into question, the meteorite community is now reconsidering the original idea.

Raising of Crops In U.S. Dated at 7,000 Years Ago

United Press International

WASHINGTON — Experiments on ancient squash seeds show agriculture in the eastern United States developed at least 7,000 years ago, about 2,500 years earlier than previously believed, according to researchers.

Researchers at the University of Rochester, Northwestern University and the Center for American Archaeology in Kampsville, Illinois, dated carbonized remains and seeds of cultivated squash plants from archaeological digs in Illinois using a new radio carbon dating technique.

"For the eastern United States, that would be the earliest date for agriculture. It does date earlier in Mesoamerica [Central America] and elsewhere in the world, in the Near East particularly," said David Asch, an archaeological botanist with the Kampsville center. "The significance is a regional one."

The team said the experiments also confirmed corn was less important in early northeastern agriculture than originally thought. Squash and a weed known as marsh elder or sump weed, whose seeds can be ground like wheat, were more prominent.

The researchers speculated the squash seeds were dropped close to a camp fire where the squash was being eaten. The seeds were charred by the fire, carbonizing them and preserving them.

Roach Extract May Aid Liver

The Associated Press

TOKYO — An extract made from a variety of cockroach found in Japan and other parts of Asia may prevent cirrhosis of the liver, Japanese researchers report.

Takao Fujita, a pharmacology professor at Tokushima University in western Japan, said an extract from the *Saltus* cockroach has been shown to prevent liver damage in laboratory mice.

Mice injected with the extract showed no sign of liver disorders 12 hours after receiving four injections of D-galactosamine, a substance that damages the liver, Professor Fujita said.

But mice that had not been injected with the extract and those injected with extract from other types of roaches had symptoms of an early stage of cirrhosis, he said.

Hiroshi Kimura, a researcher at Earth Chemical Co. Inc., a major insecticide manufacturer in the city of Aki, west of Tokyo, said the company began researching the medical applications of cockroaches three years ago.

Odd New Shark Is Described

United Press International

SAN FRANCISCO — Experts have discovered a strange shark with huge blubbery lips but ineffective teeth — which scientists say could mean there are many more huge beasts in the open sea waiting to be discovered.

Ichthyologists said that on Nov. 15, 1976, a U.S. Navy ship 25 miles off the Hawaiian island of Oahu hauled up an adult male shark nearly 15 feet long and weighing 1,633 pounds (751 kilograms). The first scientists to examine it nicknamed it Megamouth because of its huge blubbery lips, covering 236 rows of small and ineffective teeth.

Now it is officially *Megachasma pelagios* and is classified as an entirely new species within a new genus within a new family in the order of Lamnoid sharks. A report on its discovery and lifestyle has been published in the latest edition of the *Proceedings of the California Academy of Sciences*.

Scientists who dissected bits of skin, gills and teeth made a second discovery. Inside the shark's gut they found an undiscovered species of tapeworm — now formally named *Mixodigma leptaleum*, which has also got the parasitologists rewriting their books.

The new shark is described as a filter-feeder, which means its teeth don't bite or tear, but act like a sieve to trap food.

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BANKING AND FINANCE IN LATIN AMERICA

A SPECIAL REPORT

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Brazil's Credibility Hurt by Its Failure To Meet IMF Terms

By Juan de Onis

BRASILIA — The failure of Brazil and its creditors to live up to the foreign debt refinancing plan agreed upon earlier this year has created a credibility problem for Brazil's new stabilization agreement with the International Monetary Fund.

Finance Minister Ernesto Galvès said that conditions, which resulted in Brazil's not complying with commitments to its creditors on reducing inflation and public deficits, have taken a turn for the better. External recovery with stable interest rates will boost Brazil's vital export sector.

"Brazil is perhaps the only oil-importing developing country that is substantially improving its balance-of-payments structure; our current-account deficit next year will be \$6.5 billion, compared with \$15 billion in 1981," Mr. Galvès said in an interview.

As for inflation, reflected in a 157-percent price increase for the 12 months ending in August, Mr. Galvès said that removal of subsidies on petroleum products, wheat and sugar, cutbacks in public-enterprise investments and reduction of interest subsidies for farmers and exporters would assure an expansion of only 90 percent in the money supply this year.

"Inflation has reached unbearable levels and must be reduced rapidly," he said. "We will end next year with an annual rate of 60 percent."

These and other specific targets that will improve Brazil's ability to service a \$90-billion foreign debt — which includes \$15 billion in less than one year — are contained in the two-year recovery plan presented to the IMF in the third "letter of intent" negotiated this year.

But the highly restrictive credit, monetary and fiscal targets contained in this plan, as well as the ambitious targets for trade surpluses and new foreign credits, are viewed with considerable skepticism in Brazilian political circles and are taken with reservations by foreign financial attaches and bankers here.

"Everyone knows that Brazil is not going to pay its debts. But the government pretends it does not know, and acts as if it intends to pay. Since everyone believes that the government knows it will not pay, this increases the lack of confidence in the economic policy command," said Elio Caspari, a widely read columnist in *Jornal do Brasil*.

"The least one can say is that Brazil's debt problem is going to be a chronic crisis. For many years, they will not declare a moratorium, but they will not pay any more than they can finance from new loans," said the financial attaché of a West European embassy.

But doubts over the new two-year plan are not limited to skeptical journalists or foreign analysts. The unity of the economic team that has been running Brazil's policies under President João Baptista Figueiredo since the debt crisis became acute has been broken.

Carlos Geraldo Langoni resigned as president of Brazil's central bank in early September, refusing to sign the "letter of intent" with the International Monetary Fund. He said the letter's restrictive monetary, credit and fiscal targets could not be met and would bring on "generalized misery for the Brazilian people."

Two earlier letters of intent with the IMF have been abandoned as Brazil was forced to devalue 30 percent and inflation soared, instead of settling this year at 80 percent. The IMF suspended disbursements to Brazil from a \$4.5 billion "extended facility loan" in June, with the public deficit running at 15 percent of gross national product.

For most in-country observers of Brazil's economic crisis, the question is whether President Figueiredo, who has solid military backing but only a fragile majority in Congress, has the political will to confront rising opposition to the economic leadership of Antônio Delfino Netto, head of the Secretariat for Planning, and the IMF formulas for Third World debtors.

Food riots have spread in recent weeks from the drought-stricken northeast region to the poor working-class suburbs of São Paulo and then Rio de Janeiro. Mobs have broken into supermarkets and neighborhood stores in search of food.

In the Brazilian Congress, the government is unlikely to obtain a required majority for a decree that broke the automatic indexation of wages to inflation and limited wage adjustments to 80 percent of the increase in the consumer price index for the previous six months. This reduces real wages.

But the opposition also is unable to overturn this decision. However much criticism is leveled at the austerity plan, it probably will remain in effect as long as the Figueiredo government continues. The president's term ends in March 1985 and his successor will be chosen by an electoral college in which the government parties have a majority.

On the external front, the government can count on financial support because there is no other way that the holders of the \$90-billion debt can hope to get interest payments. There is a limit to how much pressure the lenders can place on a debtor as large as Brazil.

The IMF cutoff of disbursements from the "extended facility" produced a halt in disbursements from new loans by the international creditor banks, which had put up \$4.4 billion to help cover interest payments.

As a result, Brazil stopped paying interest on the foreign debt after May, accumulated arrears of more than \$2 billion, and unilaterally postponed repayment of \$400 million on a bridging loan from the Bank for International Settlements until the IMF resumed disbursements.

Brazil has its own complaints about the performance of international private banks under a package agreement reached in February by which interbank lines of credit and commercial financing were to be fully restored after cutbacks early this year. By July, it became clear that Brazil's interbank credit had dropped \$3 billion, making short-term debt payments difficult.

The third "letter of intent" is an attempt to break the impasse over suspended disbursements and the undeclared moratorium. The key provision is that the public deficit, measured in cruzeros and corrected for inflation, will be reduced from 5 percent of gross national product in 1982 to 2.7 percent this year and zero next year.

If this is achieved, cutting away subsidies, reducing public-enterprise spending and limiting monetary expansion, Mr. Galvès said inflation will be reduced to monthly rates of 5 percent in the last quarter of this year and 2.5 percent a month in the last quarter of next year.



Isabel Core-McIntire/PH

Mexico: Drastic Measures Are Working

By William A. Orme Jr.

MEXICO CITY — His voice growing hoarse and his graying temples flushed with a fine sweat, President Miguel de la Madrid had nearly reached the end of his three-hour address on the state of the nation.

"I am aware that the crisis has not yet been overcome," he said, rising to an uncharacteristically defiant pitch. "All that my government asserts is that its most grave and acute aspects are under control."

International bankers and many local economic experts concur emphatically with that assertion, even if most of Mr. de la Madrid's compatriots are more preoccupied with their declining purchasing power than they are impressed with the reordering of Mexico's foreign finances.

But President de la Madrid could legitimately boast that he had managed to contain much of the damage of what Mexicans call simply "the crisis" — the liquidity and production collapse that last year sent the peso tumbling to a sixth of its former value and that continues to paralyze what had been one of the world's fastest growing economies.

Yet while Mexico's economy will probably shrink at a 4-percent rate this year, most economists believe that the two-year trend toward further deterioration has been halted and slight positive growth now appears possible next year.

The keys to this achievement, they say, have been a realistic exchange rate, systematic spending cuts, and a commitment to end Mexico's reliance on foreign borrowing (which had led to build up debts of more than \$80 billion).

The government now believes that Mexico "tried to do too much too fast with international credit," said José Carral, head of the Mexico office of the Bank of America, the country's second-largest private creditor. That belief is bolstered by the realization, he said, that "the

banks will not have the same eagerness to lend here again."

Mr. Carral said Mr. de la Madrid had "changed the economic climate" by demonstrating that he is convinced Mexico must seek foreign capital from such sources as export earnings and direct investment.

An important factor, observers in Mexico say, has been the president's unexpected ability to limit the political repercussions of the government's strictly enforced austerity program.

Some local analysts warn that this budget-cutting and import-cutting approach, promoted by the International Monetary Fund, may have only postponed an inevitable economic reckoning. Eventually, they say, a new cycle of amortization outlays and economic contraction could dangerously undermine Mexico's political consensus.

But for now, the government enjoys surprisingly good relations with labor, which has borne the brunt of Mexico's economic burden this year. And the administration's relations with the business community are aided greatly by the private sector's unhappy memories of the country's previous government.

After six years under the fiscal management of President José López Portillo, as Mr. de la Madrid noted in his Sept. 1 address, the Mexican economy in late 1982 was "characterized by falling production, hyperinflation, soaring unemployment, foreign reserves depletion, an external debt of unprecedented magnitude and a virtual suspension of payments to our foreign creditors."

By comparison, the current administration can claim in its first year to have slowed the growth of inflation and the money supply, built up foreign reserves through the posting of a record trade surplus, and successfully renegotiated \$20 billion of the government's most burdensome short-term debts.

"The De la Madrid administration has turned the financial picture around far faster than anyone thought they could," said a Western diplomat, expressing a common sentiment in Mexico City. "There is real confidence abroad that Mexico is going to make it."

But restoring confidence at home will be Mr. de la Madrid's biggest challenge, the diplomat said.

A year ago, Mr. López Portillo shocked many Mexicans by announcing in his state of the nation speech that he had decreed the expropriation of the country's commercial banks. "They plundered us once," Mr. López Portillo shouted, accusing the private bankers of fomenting capital flight, "but they won't return to plunder us again."

This year, striking a deliberate contrast, Mr. de la Madrid pointedly invited former bank executives to attend the annual presidential speech, where he discussed his administration's "long and arduous" effort to negotiate a "fair payment" to compensate for the nationalizations. Leftist opposition groups and powerful labor-aligned factions in Mexico's ruling party have opposed the indemnification plan, but Mr. de la Madrid has already begun reimbursing the banks' former stockholders with 10-year, interest-bearing negotiable bonds.

Not only critics on the left attacked the repayment plan, however. Some of the former bank owners angrily protested that the reimbursement bonds represented less than one-third of the true worth of their bank stocks. José María Basagot, president of the Mexican Employers Confederation, complained that "someone who could have bought a Volkswagen with his stock will now only be able to afford a motorcycle." He said the compensation formula "destroys all motivation to save and invest."

Other prominent business leaders, however, (Continued on Page 11)

Beyond Temporary Relief: Real Economic Growth Is Vital

By Pedro Pablo Kuczynski

NEW YORK — The toast is burning, or is it the house? Perhaps Gary Trudeau, as he meditates about new adventures for *Duke*, can inject excitement into the subject of international debt by beginning a new series. Slackmeyer, recently appointed mogul of the First Bank of Megopolis, and Finance Minister Señor Juan López (ex-Duke), who it is hoped enjoys substantial covert financial support, would be the stars. I am sure that would be more interesting than one more article — for which I apologize — on the debt crisis.

The debt disease appears in remission as banks and International Monetary Fund officials conclude yet another debt renegotiation. A sigh of relief arises. Another step in the march toward recovery has been taken, it is felt. Indeed, several factors do encourage these feelings of optimism: the ability of the international banking system to organize these refinancings without too many problems, as well as the economic recovery under way in the United States plus the very tough austerity measures taken in a number of the major Latin American economies.

However, if the problem — namely, how to get out from under the load of debt service without excessively compromising economic growth — is seen from the point of view of the borrowers, the prospect looks uncertain. Why? The basic reason is that the burden of interest payments is very high at a time of sharply reduced capital inflows and still

lagging export earnings. The financial strain, as well as soaring unemployment and inflation in a number of major countries, means that the economic teams in the major debtor countries are under considerable political pressure to relax or get out. The only exception is Mexico, where the unitary political system and strong presidential leadership combine to make the bitter medicine more or less acceptable.

Let us look at some of these points:

- In 1983, based on average international interest rates at midyear, Latin American and Caribbean countries will as a group need to pay out about \$40 billion in interest to service their external public and private debt. This amounts to 42 percent of their projected merchandise export earnings of about \$96 billion. The proportion is closer to 50 percent in the case of Argentina and Chile, and about 46 percent for Brazil and Mexico. Even though there are big differences among countries, it is significant that for the rest of the developing world the estimated interest burden in 1983 would be about 12 percent of export earnings. Among major non-Latin American debtors, only the Philippines faces an interest burden comparable to that of Latin American countries.

- The high burden of interest arises from two facts: two-thirds of the debt of the Latin America and the Caribbean region is owed at floating rates to commercial banks (vs. less than one-third for the rest of the developing world), and the total debt is large relative to export earnings. The ratio of

outstanding external debt to 1983 merchandise earnings averages 3.4-to-1 for the region as a whole, against about 1-to-1 for the rest of the developing world put together.

- While net lending by international commercial banks to Latin America — mostly to Argentina, Brazil, Chile, Mexico and Venezuela — was running at an unsustainable annual rate of \$25 billion in the period 1979 to mid-1982, after having increased rapidly since 1973, it has fallen off sharply. With few exceptions, new bank loans have been part of the refinancing packages arranged under the auspices of the IMF. Other than for a few countries — such as Colombia, Panama, and Trinidad and Tobago — there is at present no market lending to Latin America. In 1983, net commercial bank lending to Latin America is unlikely to amount to more than \$10 billion, or half the projected current-account deficit of the region.

- While this deficit — and hence the external financing needs of the region — has been sharply cut from \$38 billion in 1981 to \$33 billion in 1982 and to an estimate of about \$20 billion in 1983, the sources of financing here dried up at a much faster rate. A recovery of private direct foreign investment will take time. So will the return of some of the flight capital of the last two years, particularly in the cases of Mexico and Venezuela, which has to await a revival of domestic private investment. Net lending by the multilateral development banks is still relatively modest, despite special efforts to increase it. It is largely tied to investment in

projects, many of which have slowed down. As a result, combined net disbursements of the World Bank and the Inter-American Development Bank, after repayments of principal, will rise somewhat to about \$2 billion in 1983, and their net transfer after interest will remain at about \$1.3 billion. A substantial financing gap remains for several countries, despite the very large cut in imports. This gap has led to arrears in current payments and to requests for new reschedulings.

There is no doubt that most of the major debtors have taken very tough austerity measures. However, until the economic recovery in the United States gets translated into the renewed growth of world trade, there will be a difficult interim period. Whether countries can bridge that interval without changes in policies is still uncertain.

Mexico is the most promising case. Its strong internal political organization has made it possible to force a reduction in real wages and a major cut in public expenditure, so that inflation is likely to come down quickly from the 100-percent-plus annual rate of late 1982-early 1983. The fact that 70 percent of export earnings and tourism are tied to

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Debt Recovery: A Qualified Hope For a Continent

By William R. Cline

WASHINGTON — With \$300 billion in external debt, Latin America accounts for 40 percent of the total owed by developing and East European countries, and for more than half of their debt to private banks. Of the five largest debtors, four are Latin American: Brazil, Mexico, Argentina and Venezuela.

Latin American debt grew rapidly in the last decade as oil price increases hit importing countries such as Brazil and Chile and spurred borrowing for oil development in Mexico, and as the global recession and high real interest rates in 1981-1982 depressed commodity prices and export volumes while raising the burden of servicing debt. Misguided exchange-rate policy and capital flight aggravated the problem in Mexico, Argentina, Venezuela and Chile.

Today's financial interdependence runs in both directions, and the health of Western banks depends heavily on several Latin American countries. For the nine largest U.S. banks, loans to Brazil account for 46 percent of capital, while Mexico accounts for 44 percent and Argentina 18 percent. If Brazil declared an extended moratorium, lost interest and reserve assets would wipe out half of the annual profits for these banks; the write-off of one year's principal and interest for just Argentina, Brazil and Mexico would exhaust not only profits but also one-third of capital for these banks, possibly forcing them to cut back \$150 billion in domestic loans.

It is small wonder that, when Mexico suspended debt payments in August of last year, Western governments and banks responded promptly. Within months, rescue packages were assembled for major debtors, including Mexico, Brazil, Argentina, Chile and Peru. International measures for these five countries alone mobilized debt reschedulings of nearly \$50 billion in principal due, loans of \$13 billion from the International Monetary Fund and new foreign bank loans of \$13 billion.

Today, the central question is whether these efforts (and more like them) will be sufficient, or whether more radical measures such as substantial debt relief through long-term stretch-outs and significant interest forgiveness will be required (at potentially great pain and risk to banks and Western economies). Essentially the question is whether Latin American debtors are temporarily illiquid or fundamentally insolvent.

To answer this question, a computer-based model developed at the Institute for International Economics projects the balance of payments and debt for 19 major debtor countries individually through 1986. Past economic relationships are used to relate the amounts and prices of their exports to OECD growth. Their domestic growth rates affect imports, and their exchange rates affect both exports and imports. Their debt service depends on world interest rates, and oil trade depends on the price of oil.

The central findings are that the global debt problem should be manageable if OECD growth averages 2.5 percent to 3 percent in 1984-1986, not a sure bet but a good one based on past recovery experience. Export growth should reduce debt-to-export ratios to safer levels. Prospects are bleaker if interest rates surge again, although one percentage point on OECD growth is seven times as powerful as one percentage point on the interest rate in improving payments balances.

Although not designed for in-depth analysis of individual countries, the model provides specific projections for the major Latin American debtor countries. The results are heartening. External deficits should decline substantially by 1984-1985 in Brazil and Argentina, and the ratio of debt to exports should decline significantly for them as well as for Mexico and Chile. Among the large Latin American debtors, only Venezuela shows a significant rise in the relative burden of debt, because of stagnant oil prices. Thus, by 1986 the debt-to-exports ratio should have fallen from 380 percent to 200 percent in Brazil, 370 percent to 180 percent in Argentina, 270 percent to 230 percent in Mexico, and 300 percent to 260 percent in Chile, while potentially rising from 100 percent to 260 percent in Venezuela unless energetic measures are taken.

On the basis of statistical indicators associated with past and recent debt reschedulings, it may nonetheless take until 1985-1986 for Argentina, Brazil and Mexico to have restored creditworthiness sufficiently to approach capital markets on a more normal basis. Until then, however, private banks are likely to provide them with new "involuntary" lending, because of the calculation whereby moderate new loans safeguard large outstanding loans. Orchestrating new bank loans (especially by smaller, "free rider" banks) will be important for this purpose, and the IMF's role in this process has been historically important in the last year as, for the first time, it threatened not to lend unless the banks did.

Sound OECD recovery and the avoidance of stratospheric interest rates are of extreme oil price shocks in either direction (because they affect Mexico and Venezuela in the opposite direction from Brazil and Chile) should permit an internationally managed recovery from today's severe debt problems. So far, progress in this direction has been substantial. Mexico has cut its foreign deficit from \$12 billion in 1981 to less than \$1 billion expected in 1983. Argentina, Mexico and Brazil are meeting the foreign-debt targets in their IMF programs, although Argentina's inflation remains above 300 percent and Mexico will suffer severe recession this year.

In a reversal of roles with Mexico a year ago, Brazil today causes the greatest worries. The technical strategy of counting on the restoration of interbank deposits failed badly. Also, Brazil failed to comply with IMF commitments on budget cuts, and as a result has drifted agonizingly without infusions of planned IMF and commercial bank loans for the last three months. Now a new IMF agreement is virtually in hand, but only after a government cap on wage indexing that may yet be vetoed by the Brazilian Congress, and only after escalation of domestic political criticism (in a context of three years of recession) to the point where the opposition party has called for a moratorium on both principal and interest over the next three years. Although the government-IMF plan is likely to prevail, and the additional bank lending needed for 1983-1984 is likely to be obtained, the downside political risk has grown considerably.

In contrast, Mexico's political system of embracing opposition to neutralize it seems once again to be working, and prosecution of corrupt officials from the previous administration provides a much needed sense of equity. In Argentina, both the Radical and Peronist parties have coherent and moderate (if non-orthodox) economic plans as they approach the Oct. 30 election (a choice to Brazil, where the impossibility of immediate assumption of the responsibility of power gives additional license to the opposition to advocate moratorium). Political turmoil is more severe in Chile, where a decline of 14 percent in national production last year and high unemployment have aggravated opposition to President Augusto Pinochet, but the opposition is concentrated on a hoped-for return to democracy, not on calls for a debt moratorium.

Venezuela is unique. It need not have been a large debtor, given its oil surpluses of the 1970s, but mismanagement of state firms led to borrowing abroad even as foreign assets were accumulated by the state oil company. Then, when the bolivar became threatened by a weak oil market, severe capital flight in 1982 depleted the country's foreign assets before the government suspended free conversion to dollars. Now Venezuela limps along without an IMF agreement, and with grudging rollover of large short-term bank debt, until after the election in December, when politically unpopular austerity measures and an IMF adjustment program will be more feasible. Fortunately, Venezuela's net external debt remains moderate relative to exports, because of still-large reserves.

Overall, both the economics and the politics of Latin American debt suggest that the debt problem can be managed, although the severity of recession is such, with strongly negative growth rates, that there is a risk that the threshold of political tolerance will be exceeded.

Many fear that a Latin American debtors' cartel might emerge, calling for repudiation or indefinite moratorium on interest and principal. Such an outcome is unlikely. Even though the narrow calculation of interest outflow against capital inflow is now negative, any incentive to default is overwhelmed by the disadvantages: a cutoff from future borrowing, private lawsuits such as those that seized Chile's copper exports after expropriation under the Allende government and, conceivably, foreign official sanctions. The major Latin American policymakers will think long before opting out of the Western financial world, especially if they judge that recovery is not far away. And the dynamic of credit-rating self-preservation works against large-country participation in a debtors' cartel. Thus, this month's much-heralded Caracas conference on debt

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BANKING AND FINANCE IN LATIN AMERICA

Development Banking: Long-Term Aid in Area of Imminent Crisis

By Jane Seaberry

WASHINGTON — The World Bank is facing an unusual problem: While debt-ridden Latin American countries struggle to find money to repay billions of dollars in loans, the bank has billions of dollars in unused lending that under its rules it cannot disburse.

Under its charter, the World Bank in most cases can lend funds only for special projects, such as hydroelectric dams or export-related projects, whose funding must be matched by that of the borrowing country. But with so many Latin American countries heavily in debt, those governments cannot pay their share so the money remains idle, a World Bank official said.

This situation illustrates the dilemma of project-oriented development authorities armed with long-term solutions when their money-starved client countries are seeking short-term help. Agencies such as the World Bank and the Inter-American Development Bank are not in the business of restructuring debt; rather, they largely try to help countries keep their development projects going while they ride through the debt crisis. The banks' funds have been earmarked months or years earlier, and these allocations are difficult to change even in the midst of a crisis.

"The fundamental philosophy of our institution is to help countries diversify their exports, we believe, and to have an export orientation," World Bank President A.W. Clausen said in a recent interview. "It's one's ability to earn for-

sign exchange that will make an economy more efficient."

Many of the Latin American countries, however, are interested mainly in paying back billions of dollars in debt and have postponed or abandoned costly development projects. With the World Bank, the governments must provide funding and begin construction of projects before the bank will provide financial assistance. But because the governments are unable to match funding for their projects, "there are lots of undistributed funds," a World Bank official said.

The official said these funds run in the billions of dollars and have been committed to projects that may or may not be completed, depending on whether the government has the finances to go through with the project. But because the funds have been committed, they cannot be used for something else. "The more sluggish the economic situation, the more likely this money will sit there," the official said. Some observers have recently complained that the World Bank is not doing enough or acting quickly enough to help its Third World customers.

"When things are on a downswing, the International Monetary Fund can inject money; we can't," the bank official said. "The fund has countercyclical capability. We are stuck with the cyclical. When countries aren't doing well, there's nothing we can do to push out projects. We're trying to put the emphasis on productive projects that generate exports."

In many instances, these agencies are constrained by rules that allow little flexibility during crisis periods. For example, the Inter-American Development Bank during the 1970s decided to concentrate its future lending activities on the least developed countries because such larger countries as Brazil, Argentina, Mexico and Venezuela seemed to be doing well. Now these larger countries need a major portion of the help from the IDB and are not able to get it.

Officials of both banks stressed that they were not created to help Third World countries with balance-of-payments problems but to aid them in financing development projects intended to increase exports and thus earn valuable foreign exchange or help maintain the country's internal structure.

Even with the constraints of their mandates, however, officials at both banks said they were concerned and were doing what they could to ease the financial pressures on Latin American countries. This year, the World Bank instituted a special action program to help the developing countries sustain growth during the financial crisis. The bank was able to increase disbursements by \$2 billion between 1983 and 1985, but it had to borrow \$1.6 billion to finance the project.

Under the World Bank's special program, bank lending has been temporarily altered somewhat, but bank standards of creditworthiness and other project-related criteria remain unaltered. The World Bank has expanded struc-

tural adjustment lending beyond the 30-percent limit applied to an individual country. This lending is for government programs, not tangible projects, and constitutes 10 percent of the bank's lending capability. It can be disbursed within a year, which is rather rapid for World Bank loans, an official said.

This lending does not require the governments to match funding and does not have to be used for a construction project. For example, if a government wants to get rid of subsidies as part of austerity measures, it can receive World Bank money to tide it over until the crisis dissipates while averting domestic unrest, the official said.

The bank also expanded sectoral lending for export development, modernization of existing plants and financing of key imports for critical production activities. In addition, it is financing a greater proportion of projects costs, including providing supplementary loans for ongoing projects and restructuring existing World Bank loans.

"While the bank's mission does not include the financing of balance-of-payments deficits of its members, it does have a responsibility to assist member countries to maintain the maximum level possible of development while minimizing the erosion of long-term growth prospects," the bank said when announcing the program.

For example, as of June 30, the bank approved additional loans to Mexico from 1984 through 1986 of \$740.3 million for agricultural

marketing programs, export development and other local projects. Brazil was allocated an additional \$682.2 million for aid to its agricultural and industrial sectors.

In funding projects, the World Bank pays as construction of the project is being completed. However, the bank currently is accelerating disbursements of funds for projects, allowing the governments to pay their share later on, a bank official said. In addition, the bank is reducing the scope of some projects while retaining the same amount of bank funding and restructuring loans.

The Inter-American Development Bank is hampered in dealing with the current crisis because its funding allotments are fixed by negotiations between the 43 member governments and cannot be changed unless the governments decide to do so, bank officials said. This means that it is difficult to change the long-range plans that de-emphasized the larger, more developed countries. (The bank's membership was increased in 1976 and 1977, so that the 43 governments include countries from other regions, notably Europe.)

The bank's funding is only for projects, and payment is made as projects are completed. In addition, its funding pool is very small. Last year, it lent \$2.7 billion and about half of that was targeted to low-income countries.

Projects to improve agriculture and rural development are the bank's priority, followed by urban improvement and energy development

and diversification. During the bank's 24th annual convention this year, its president, Antonio Ortiz Mena, said his agency's loans were vital for developing "a framework of mature and efficient international cooperation." He criticized private U.S. banks for not cooperating in negotiating foreign debts of the Latin American countries.

"Those banks should realize the situation we live with in Latin America and fortify their participation in Latin America's development," Mr. Ortiz Mena said.

Meanwhile, the bank's board of governors has recommended that its 43 members increase the bank's resources by \$15.7 billion between 1983 and 1986, allowing it to lend about \$13 billion in freely convertible currencies for development projects, not balance-of-payments problems. Up to \$3 billion of these freely convertible currencies would be available to Argentina, Brazil, Mexico and Venezuela.

In addition, the bank recommended increasing by \$703 million its soft-loan division, the Fund for Special Operations, which is used for dealing with special circumstances "arising in specific countries or with respect to specific projects," the bank said. The board of governors also recommended the establishment of an Intermediate Financing Facility to subsidize the interest on IDB loans up to \$800 million.

The increases are expected to become effective on or before Oct. 31 after ratification by most of the members.

Central America: United Front for Aid From World Banking Community

By David Vidal

WASHINGTON — A concerted Central American effort to present a united front before the international financial community, in hopes of obtaining more financial aid, better terms of trade and greater technical assistance, is entering its decisive phase this fall.

The five member countries of the Central American Common Market — Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua — say they are facing the most serious economic and social crisis in Central American history and the most severe crisis since the Depression of the 1930s.

The evolution of the crisis has

been swift. First came the inflation of the 1970s driven by oil price increases; then the prices of principal export commodities fluctuated violently, and mostly downward; then the balance of payments went into deficit and the deficits were financed with foreign borrowing. Meanwhile, depreciation of the dollar caused a substantial drop in

dollar reserve holdings even as the cost of imports and debt-servicing requirements grew and industrial production and regional trade fell.

Now, with demand from the industrialized nations low, there is little prospect of recovery without substantial additional resources that these Latin countries currently lack.

For these resources, they are turning to the international financial marketplace. And to call attention to their needs, they have been working together for more than a year with assistance from the Inter-American Development Bank for a joint regional presentation for private banks, foreign governments and multilateral institutions.

This project, with the development bank in an unaccustomed role as a "facilitator" for a group of member countries, represented a "historic effort," according to Guillermo Moore, a consultant to the bank, who has served as coordinator for the Special Program for Central America at bank headquarters in Washington.

The goal, he said, is "for the international community to see

that these countries want to continue working as a team."

"With a little goodwill from importers, they can see their foreign exchange situation, which is now critical, improve. Very little can have a major impact on Central America," he said.

The first step in the search for a way out involved testing the waters of the international financial community at a mid-September meeting in Brussels. This meeting was purely held away from the major financial capitals and at the headquarters of the European Community to stress the regional nature of the problem and the hoped-for global, rather than bilateral, nature of responses.

Neither the development bank nor the individual countries have said exactly how much assistance is needed. This is due partly to the role that the bank has defined for itself as a go-between, and partly to the renewed interest of the countries in group action as a better guarantee of individual survival.

According to the bank, the initiative for the project came from the group of countries in January 1982, after the failure of a plan to have the World Bank lead a group with some of the same goals in mind.

A pool of high-level Latin American consultants was used to assist the countries in assessing their economic situations, preparing ana-

lyses and composing necessary documents.

These consultants included Javier Silva Ruete, a former finance minister of Peru; José María Dagnino Pastors, a former finance minister of Argentina; and Jorge González del Valle, former president of the Bank of Guatemala.

A 34-page document recently circulated by the Inter-American Development Bank, "The Regional Report for Central America," is an abbreviated version of some of the results of their work. In a reflection of the behind-the-scenes role the bank is seeking to stress, there is no bank insignia in the document, only the recognition in the text that "in all of Central America's economic recovery efforts, the IDB has played a key role."

The document mentions the needs of no single country by name, except to speak of Nicaragua and El Salvador's "sharp imbalance" in regional payments, "owing to the disturbances in the productive mechanisms of those nations."

According to Mr. Moore, the strong emphasis on the countries as a group "coincided with the message we were getting from Europe; they wanted to see the situation of the region, not of each country."

One reflection of the regional condition that has been quantified is the contraction in Central Amer-

ican regional trade, which fell by nearly half from \$1.1 billion in 1980 to \$775 million in 1982. Also, the per capita real rate of growth in the domestic product of the region was negative for four successive years starting in 1979, reaching a minus 6.5 percent rate in 1982, according to preliminary figures.

Recovery is foreseen by 1985 if the world economy expands and foreign help is forthcoming. The resources being sought are intended for channeling to three regional entities to revive interregional trade, support the regional balance of payments and provide working capital.

The development bank, as part of a new emphasis on "flexibilization" in its internal processes, has agreed to continue working with the group of countries and with potential donors, providing hope that more projects and assistance will reach fruition.

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Rising Debt: A Continent's Qualified Hope for Recovery

(Continued From Preceding Page)

turned out to be not the start of a debtors' cartel but instead an occasion for moderate resolutions.

Despite prospects for improvement and disincentives to default, success in managing the debt problem will not come easily. There may be new setbacks, possibly large ones.

If they occur, the strategy should be for the debtor country involved to return to the negotiating table for a cooperative solution with foreign banks, Western governments and international agencies. Grandiose, multicountry projects for debt relief not only mean infeasible

requirements for public capital; by buying out the banks (with or without a loss), they also could remove the banks' incentive to lend new money.

Large rescheduled maturities coming due in the mid- and late-1980s will have to be dealt with, but should be manageable if the capital market has returned to a greater degree of normalcy. Latin American exports may lag behind their normal response to the OECD business cycle because of increased reliance on depressed Third World markets, but if so the process of improvement will simply take somewhat longer.

Still, there is no avoiding the severe consequences if OECD recovery collapses and the worst recession since the 1930s stretches from three years to six or seven.

Similarly, a dramatic failure of major Western governments to play their role in the process — such as a rejection of the IMF quota increase by the U.S. Congress — could push the debtors' cartel relationship away from the cooperative mode toward the conflict mode, with losses for all sides.

The debt crisis is a supreme challenge to international economic management. So far, the response to this challenge is encouraging.

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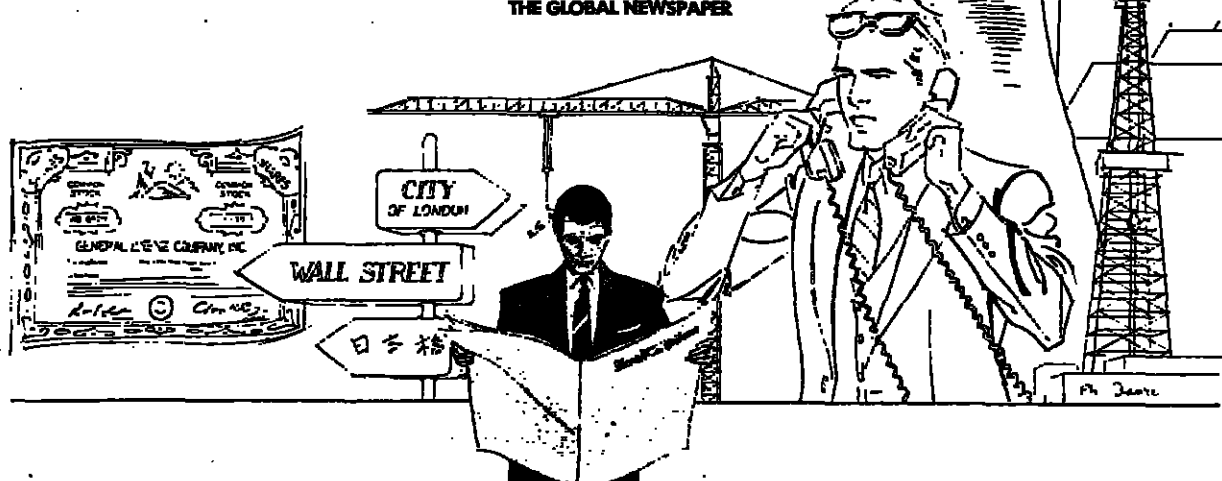
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Argentina: Questions on Civilian Rule Begin

By Martin Andersen

BUENOS AIRES — A return to democratic rule slated for Jan. 30, after nearly eight years of military government, has raised serious questions about Argentina's will and capacity to pay off almost \$40 billion in foreign debt.

Uncertainty over the changes that a civilian government will bring has clouded a cautious optimism in foreign banking circles that Argentina, slowly retreating from financial collapse, will remain on course.

A little more than a year ago, after the war with Britain over the Falkland Islands, Argentina was caught between the realities of imminent bankruptcy and a growing nationalist sentiment, in the military and the civilian opposition alike, that Argentina should renounce its financial obligations to what were perceived as hostile nations in the developed world.

A speculative and military spending boom that began in the late 1970s had come back to haunt policy-makers in the form of maturing short-term debt. The problem was exacerbated by a credit squeeze from developed countries as a result of the Falklands invasion.

When Jorge Wehbe took over as economy minister after the war, Argentina could not pay even the interest on its foreign debt. Imports had ground to a virtual standstill as foreign suppliers refused to open letters of credit.

The practical, problem-solving approach taken by Mr. Wehbe and the central bank governor, Julio González del Solar, paid off early, after the International Monetary Fund meeting in Toronto a year ago.

By December 1982, Argentine officials had hammered out the principles of a rescheduling program with the IMF. The same month, 263 creditor banks signed a debt renegotiation agreement with Argentina providing a \$1.1-billion bridging loan for repayment by March 1984; a five-year, \$1.5-billion loan with six years' grace on repayment; and the renegotiation of about \$6 billion in public-sector and state-guaranteed debt.

A condition of the agreement with the banks was that Argentina sign the standby IMF accord; it did so the following month. The program worked out called for the IMF to disburse \$1.5 billion over 15 months. Of that, \$625 million has been disbursed in two tranches, as well as \$502 million in compensatory trade funds.

Despite occasionally sharp differences with policy positions taken by the Wehbe team, foreign financial analysts give the economy minister generally high marks for his overall handling of the situation.

"When these guys took office, no one gave them more than 60 days, and their predecessors were mostly against them trying to deal with the IMF," a U.S. banker said. "They had no power base, and what they accomplished here is little short of a miracle."

"This team will leave a very solid base for the future. They've maintained a constructive, generally friendly dialogue on the debt, both with the commercial creditors and with the fund," the banker said. "There is no reason the next government cannot pick up the tools and the relationships and make it work."

Foreign financial experts agree that solving Argentina's debt problem is a question of proper management. The country always has been able to count on its natural resources, particularly agricultural products, to bolster its international standing. "God is Argentina," is a frequently heard popular reflection of confidence in the country's capacity to recover.

It is a boast hard not to take seriously. During the first half of this year, Argentina ran up an esti-

mated \$2-billion trade surplus, due in large part to virtual energy self-sufficiency and a record 40-million-ton grain harvest.

As in years past, agriculture appears to be the key to Argentina's ability to live up to its foreign obligations.

While the country's gross domestic product grew by 0.6 percent in the first quarter of this year, after a 5.7-percent decline in 1982, agriculture grew by 8.4 percent last

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Real Growth Is Vital

(Continued From Preceding Page)

the United States means that foreign-exchange earnings are recovering quickly, in line with the U.S. economy. A firming up of international oil prices, a strong probability in the next couple of years, is likely to round out the recovery.

While Brazil does also have a centralized political system, one third of its exports go to depressed areas of Latin America and the rest of the developing world; trade barriers are an important obstacle to its exports to the industrialized world; and it has not been able to take advantage fully of lower oil import prices because of delayed payments arrangements. Moreover, the refinancing package drawn up at the beginning of 1983 was too modest in relation to needs, both in order to maintain a minimum level of net capital inflows and to replenish the very low level of international reserves. A new debt re-arrangement is thus needed.

The immediate prospects of other countries vary, and are in some cases closely linked to political changes. Both Argentina and Chile have large external debts in relation to their exports (4.2 times annual exports in each case). In the case of Chile, copper remains extremely depressed, while the actual program of a new Argentinean administration is not really known. Peru, entering its third year of an IMF program, faces weak export prices and the effect of the natural disasters caused by El Niño current, which has interrupted internal transport, causing shortages and intensified inflation, and has sharply cut the exportable output of petroleum.

In order to be sanguine about the next year or so, one has to hope for change in the following areas:

- An improvement in the conditions that create potential political

instability; declining incomes, a soaring inflation rate, and unusually high unemployment in large and rapidly growing metropolitan areas. Per-capita national income — which reflects the drastic decline of the terms of trade — for the region as a whole will have declined 10 percent in the period 1981 to 1983.

In a number of countries, basic food consumption has fallen in absolute terms, reflecting the cost of "adjustment" upon lower income urban groups, which are hard hit.

The high level of international real interest rates, combined with additional refinancing charges and uncertainties about the future course of interest rates, casts doubt on whether several countries can continue to pay out half their net port income in interest, unless net capital inflows can continue at a reasonable pace. Banks therefore face the uncomfortable choice of continuing to lend or risk jeopardizing the chances of getting their interest paid.

Several imaginative programs have been proposed to refund external debts, but the cost to the lenders of such proposals would be too high for them to continue lending. Those proposals are thus a double-edged sword. Moreover, they enjoy little support in the countries that would be called on to foot the bill. It would be preferable, therefore, as I have suggested in greater detail elsewhere (in an article in the Fall 1983 issue of Foreign Affairs, entitled "Latin America Debt: Act Two"), to establish now a contingency mechanism for the next year or two under which the margins over the cost of money, in the case of refinanced debts, would be sharply reduced — enough to make a difference in the payments due from the borrowers, but not so much as to jeopardize further lending. Not an easy objective to attain, but probably better than a last-minute response to an emergency.

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BANKING AND FINANCE IN LATIN AMERICA

Chile: Heavy Bill for 'Miracle' Of Pinochet Decade Now Due

SANTIAGO—The rising tide of political opposition to President Augusto Pinochet's economically crippled regime has made Chile's refinancing of foreign debt with 600 international banks a major target of criticism in Chile.

Unless there is substantial economic recovery soon—with a reduction in the number of unemployed, currently more than 30 percent of the labor force—Chile is likely to seek relief from the "standby" agreement with the International Monetary Fund that is the cornerstone of the bank refinancing agreement.

The IMF agreement, signed in January and already modified in June, provides \$900 million in balance-of-payments support and compensatory financing. But to draw the money, Chile has to abide by strict quantitative limits on fiscal deficits, monetary expansion and credit to the private sector, and it has to build up international reserves, which have fallen by \$1 billion since December.

On the basis of IMF monitoring of this agreement, Chile's international creditor banks agreed in July to accept postponement of repayment of \$3.6 billion in debt principal, to restore commercial credit lines up to \$2 billion and to lend an additional \$1.3 billion to help Chile pay interest due this year on its debt.

But to provide this financial package, the steering committee of 12 banks, led by Manufacturers Hanover, insisted on a sovereign guarantee by Chile for all the new loans and the rescheduled debt. The banks also extracted a declaration of principles committing the government to support repayment of debt by all private borrowers, who hold 60 percent of Chile's foreign debt, forgoing bankruptcy proceedings.

The terms of both the IMF and bank agreements have come under heavy criticism from a wide array of political parties, dissident economists and most of Chile's business organizations. The main charge is that Minister of Finance Carlos Caceres and the Central Bank's president, Hernán Eyzaguirre, made excessive concessions without getting the necessary conditions, including more new funds, to reactivate the economy.

This has become one of the major fronts for attack on the 10-year-old regime of President Pinochet,

whose resignation has been demanded by the opposition Christian Democratic Party. Reactivation of the economy has become a political imperative for President Pinochet, who is fighting to complete his presidency ending in 1989.

With a total foreign debt of more than \$18 billion and a population of 11 million people, Chile has the highest per-capita foreign debt in Latin America. When the military took power in 1973, the debt was \$4 billion.

Since 1982, when Chile was forced to devalue the peso, the economy has gone into a tailspin. The gross national product fell 14 percent last year, and the University of Chile's department of economy predicts a further 2-percent drop this year.

The major private banks, linked to the big conglomerates led by Javier Vial in Banco Chile and the brothers-in-law Manuel Cruzat and Fernando Larraín with the Banco Santiago, are technically bankrupt and have been kept going by Central Bank funds of almost \$2 billion. Nonperforming loans exceed the capital and reserves of the private banking system by 60 percent.

But the debacle of the financial sector rests on the collapse of the private economy, with industrialists, merchants and farmers unable or unwilling to pay loans inflated by annual interest rates that reached 40 percent in real terms in 1982.

The opposition political parties and labor unions since May have organized monthly "days of national protest" that have erupted into violence and shaken the regime. But in addition to protest, the opposition is proposing alternative political and economic programs.

"The debt problem is of such magnitude that it cannot be resolved by the traditional approach; renegotiating the debt for one or two years only postpones the problem," said Andrés Zaldivar, a former Chilean minister of finance who is president of the Christian Democratic International.

Mr. Zaldivar, who was exiled for two years by President Pinochet, said that Latin American debtor countries should "propose to the international financial community a formula for paying debts in a form that will not deny the region

the resources it needs to carry forward its development."

"If this is not worked out, there will be a crisis in the system because the debtor countries will simply reach a point of inability to pay and there will be a political crisis," he said. In contrast, Mr. Caceres, in a formal statement to the banks, recognized that "it is not the normal function of commercial banks to make long-term loans beyond eight years."

For most of the last decade, economic policy in Chile has been conducted by technocrats backed by the military government, with little regard for dissent. The policy was that of the so-called Chicago school (from the work of economists at the University of Chicago), emphasizing market-oriented, private enterprise with a free-wheeling financial sector and a minimum of state regulation.

For President Pinochet, it meant the prestige of frequent visits from leading international bankers, such as Walter Wriston of Citibank or David Rockefeller of Chase Manhattan, who not only lent money lavishly but also praised the policy as a model for the Third World. The loans also helped the Pinochet government equip the Chilean armed forces with at least \$3 billion in foreign purchases, according to military analysts.

When these policies seemed to be working, with an 8-percent rise in gross national product in 1979 and 1980 and inflation below 10 percent in 1981, Sergio de Castro, the chief "Chicago boy" and minister of finance, proclaimed in his annual state-of-the-economy message for 1981 that Chile had laid the foundation "for one of the most solid economies in the world."

The symbol of solidity for Mr. De Castro was the fixed exchange rate of 39 pesos to the dollar, which he said would resist "all pressures and remain for many years." Chilean private borrowers, facing internal credit costs of 40 percent real interest, went to foreign banks to borrow billions of dollars at cheaper rates with official encouragement.

Less than a year after Mr. De Castro's message, he was out and President Pinochet devalued the peso. The current-account deficit in the balance of payments for 1981 had reached \$4 billion, with imports of \$6.5 billion and exports of only \$4 billion.



Inside a big copper mine near Rancagua, Chile.

The collapse of the Chilean economic "miracle" had begun. The evidence of business failures and bank insolvencies showed that the faith placed by the "Chicago boys" in private business decisions for the most "efficient" allocation of resources had been misplaced.

In the new political climate in Chile, where the transition to democratic constitutional government has begun, foreign bankers will face harder negotiating conditions than those required in dealing with the economic technocrats of the last decade.

—JUAN DE ONIS

Venezuela Rejects the Austerity Solution

By Joseph A. Mann

CARACAS—Once viewed as a low-risk lending target by international banks because of its multibillion-dollar oil revenues, Venezuela today has joined the ranks of international credit problems.

As a result of a steep decline in petroleum income and consistently high levels of domestic government spending, the country is running far behind in repayment of principal and interest on foreign debt estimated at \$32.6 billion. Public-sector obligations with overseas banks now stand at \$25.3 billion, while private sector debt is estimated at \$7.3 billion.

The Christian Democratic government of President Luis Herrera Campins has asked banks to refinance \$18.4 billion in public-sector debt falling due this year and next year, and wants bankers to stretch out loans to Venezuelan businesses and financial institutions for at least three more years.

In an effort to press both foreign banks and his own government for an early solution, Venezuela's finance minister, Arturo Sosa Jr., has threatened to resign if a refinancing plan is not approved by Sept. 30. The government's three-month moratorium on most public-sector principal payments expires that day.

But major differences persist in negotiations between the Venezuelan government, representatives of more than 400 creditor banks and the International Monetary Fund, which is attempting to mediate in the restructuring talks. Most foreign bankers in Venezuela have little hope that any comprehensive rescheduling package can be worked out before a new government takes over in January.

The Herrera administration has rejected the IMF's prescriptions for economic recovery, and many bankers believe that it will be impossible for the government to implement harsh economic measures in the circus-like atmosphere

surrounding the presidential elections, set for Dec. 4.

"What we'll probably see is a Costa Rica-style solution for Venezuela," an American banker said. "That means nothing will happen until the new government is in office." Costa Rica encountered serious debt refinancing problems during a recent presidential election year, and bankers decided to wait and hold negotiations with the incoming government, since the outgoing government could not guarantee the execution of an economic recovery plan.

While Venezuela's foreign debt is far less than the \$80 billion to \$90 billion range of Brazil and Mexico, it nonetheless represents a thirtyfold increase over the country's foreign debt of a decade ago. Despite large increases in government oil revenues after 1973, two successive administrations borrowed heavily on international finance markets to pay for costly development programs in industry, agriculture and public works.

Although Venezuelan government entities regularly missed loan payments in recent years, primarily because of sloppy debt management, there was no real problem in servicing foreign debt until last year, when the country's oil exports fell to \$15.7 billion, from \$19.1 billion in 1981 and \$18.3 billion in 1980.

At the same time, the effects of other problems began to be felt. Four years of domestic recession, government mismanagement of the economy and the near failure of the country's largest bank, Banco de los Trabajadores, provoked a sharp drop in confidence both at home and abroad, and caused capital flight amounting to about \$8 billion in 1982 alone.

Early this year, continued weakness in oil prices plus an inability to refinance the government's maturing external debt caused an acceleration of capital outflows. By mid-February the country was sliding toward a full-blown crisis.

The authorities imposed exchange controls—a measure not seen for two decades—and instituted a three-tier exchange rate for the nation's currency, the bolivar.

The Herrera administration also realized early this year that it would not be able to repay foreign banks the more than \$18 billion coming due this year and next. This problem, while tied to falling oil revenues, was mainly a product of other factors. The Herrera regime had failed to establish a practical debt-service profile and did not notice that more than \$13 billion in foreign maturities was coming due in 1983.

"Someone in the Venezuelan Finance Ministry had to be rather slow," a British banker commented. "Venezuela's annual debt service ran from \$2 billion to \$3 billion up through 1982, then jumped to \$13 billion this year. The people running the administration's debt program must have been asleep."

Another factor was the reluctance of many foreign banks to refinance Venezuela's maturing debt following the uncertainty caused by the war over the Falkland Islands.

At the beginning of this year, as government agencies began missing loan payments with alarming regularity, the Herrera administration asked banks to grant a moratorium on principal payments for most of its outstanding foreign loans. The most recent moratorium on principal payments expires at month's end, but foreign bankers expect the Venezuelans to seek another extension.

Talks are under way on rescheduling much of Venezuela's foreign debt, but the Herrera government has been unable to reach agreement with foreign banks and the IMF on the shape of an economic restructuring program.

The IMF has recommended substantial reductions in government spending, new taxes, the elimination of price controls and domestic subsidies on oil prices, and a unification of the exchange-rate system.

Argentina: Questions on Civilian Rule Begin

(Continued From Preceding Page)

year and showed a 7.5-percent first-quarter growth this year.

Such abundance, coupled with the current government's success in getting the emergency financing needed to hold the country together until power is handed over to civilians, has pushed the on-burning debt issue into the background.

But Argentina's guarded optimism over the course of debt negotiations thus far may falter after the Oct. 30 presidential, legislative and municipal elections. While the government of President Reynaldo B. Bignone has been credited with holding down imports to a bare minimum and keeping a lid on public spending, pressure for salary increases and last-minute appropriations by the military rulers before they leave office may contrib-

ute to an enormous strain on the federal budget.

"The fourth quarter is going to be a real problem, because it coincides with the lame-duck government," said a Western diplomat. "The shorter the transition period, the better."

Argentina's current cash-flow problems also have been exacerbated recently by the growing practice of underinvoicing exports, a phenomenon encouraged by the widening gap between the official and black-market price of the dollar on the foreign-exchange market. The official price of the dollar at mid-September reached 12 pesos, while the black market price was 22.

Beyond the inevitable inflationary push by the outgoing military government, there remains the question of what attitude the incoming government will take when confronted with IMF-inspired

strictures on spending, as well as with an explosion of popular expectations.

Both the traditionally favored Peronist Party and its closest rival, the Radical Party, have pledged that, if elected, they would not go to such an extreme as debt renunciation.

But assurances are little comfort to banking representatives, who feel certain that the victorious party will read into its popular mandate a right to toughen Argentina's stand in talks with its creditors. The urgency of the negotiations is reflected in the fact that Argentina will need help with more than \$8 billion in payments coming due next year.

"If the bankers come in with the attitude that the problem is Argentina's and only Argentina's, I think you'll see a toughening up of our bargaining position," said Roberto

Lavagna, a top Peronist economist.

Neither the Peronists nor the Radicals appear willing to allow IMF-imposed austerity to cut further into workers' purchasing power. The Peronist presidential nominee, Italo Argentino Luder, and the Radical candidate, Raúl Alfonsín, have both steered away from suggesting that more cuts in real wages are needed to meet the country's foreign obligations.

In a dramatic turnaround from the days of industrial development fostered by high tariffs and hefty subsidies, a labor surplus has developed in a country accustomed to importing large numbers of foreign workers.

"The comparative advantage enjoyed by Argentina in today's international market is its low wage level," said the respected independent daily newspaper La Nación.

Peru Battles Inflation, Social Unrest

By Nicholas Ashcheshov

LIMA—The Peruvian Congress spent much of August pushing through a law to set limits for monthly price increases on such basic necessities as gasoline, bread and electricity. The law stipulated increases of about 3.5 percent a month.

The Congress had intended, in a combination of vote-seeking and genuine anger over the ballooning of the inflation rate—it has jumped this year from 70 to 170 percent on an annual basis—to prohibit the price rises altogether. But even before the Congress acted, the Finance Ministry and the Central Bank were launching a financial package to bring the government-ordered price rises of the first seven months of the year down from about 10 or 11 percent a month to around 3.5 percent.

So the Congress was just putting its own teeth already being ailed over by the economic team—which, as elsewhere in Latin America, is made up of technocrats rather than politicians—and its efforts served to demonstrate the legislators' minimal influence over economic and financial policy.

Moreover, the price-ceiling law was the only bit of legislation the Congress has passed since the 1983 session opened at the end of July. For many Peruvians, this was par for the course for the democracy that succeeded 12 years of military rule in 1980. All this comes at a time when Peru is limping through the worst slump since statistics have been kept, (with its foreign debt estimated at more than \$11 billion).

For now, the ineffectiveness of the Congress and the gravity of the economic crisis do not seem to be reflected in social unrest, as President Fernando Belaúnde Terry, 71, moves into the fourth year of his second term (he was elected to his first term in 1963, but was overthrown by the military in 1968 in the middle of a financial crisis).

The constitution allows ministers to force through "extraordinary" legislation "in the national interest." In theory the system allows for discussion of legislation between ministers and

congressmen. But as Eduardo Calmell del Solar, a leading member of the ruling party, said, "Sure we discuss government decrees; the only problem is that we discuss them when they're already set."

These procedural points suddenly are very important as the government struggles to persuade Peruvians that it really does have inflation under control. The people are skeptical—and with some reason.

An International Monetary Fund team is coming to Peru this month on what officials in Lima say is a routine checkup, but which in fact will include preliminary discussions of a new agreement. This would be preceded by an urgent request for a waiver of the present extended fund facility agreement. Peru, in other words, has failed for the second year in a row even to come close to complying with the agreement. Last year, the budget deficit was supposed to be 4.2 percent of the gross national product, but it came in at more than 9 percent. This year the target was 4.1 percent, but it is heading for 9 percent or higher, according to a Finance Ministry official.

The government says that it has good reasons for this latest failure. It is having to pay the cost, in terms of lost production and reconstruction spending, of the flood that devastated the northern coast during the first five months of the year and of the drought in the southern highlands—both the result of the periodic El Niño ocean current which, meteorologists say, could be repeated this coming year.

"There's just no doubt that the floods have cost us the extra percentage points many times over," said Richard Webb Duarte, the executive president of the Central Bank. Mr. Webb and other officials point out that government expenses, and above all investment projects—dams, irrigation works and roads—have been cut back extensively. Construction companies say that their contracts have been cut and that the Treasury owes them substantial sums for the small amount of work already completed—the total payments backlog is said to be \$40 million.

Doubts persist that the Belaúnde administration has the political muscle to control an economic crisis that even government economists say will continue at least until the middle of next year. Government spending cuts have been extensive but also selective: In Lima, workmen are busily repairing roads and cleaning parks, a last-minute effort to carry electoral favor before municipal elections in November. Diplomats point also to the decision at the end of last year to purchase 26 Mirage-2000 fighter-bombers at a cost, spread over 10 years, of \$870 million. Meanwhile, the navy has contracted in the Netherlands for \$116 million worth of refitting of old cruisers and destroyers, and equipment suppliers in Peru say this is just the beginning of a \$1-billion program.

General Francisco Morales Bermúdez, who was president from 1975 to 1980, has raised questions about the military spending: "Who sells this equipment to us? Who finances them? Who is interested in fomenting discord between neighbors here and elsewhere in the underdeveloped world?"

Internal discord has become dramatic this year, with the rise to prominence of Sendero Luminoso, or Shining Path, a militant guerrilla group. Sendero, which espouses a Maoist philosophy, has been gathering strength in recent years in the isolated valleys and ranges of the south-central Andes, centered on the old colonial city of Ayacucho.

The police struggled unsuccessfully to cope with the guerrillas until President Belaúnde finally decided to use the military. Official figures are not clear, but at least 1,000 people have been killed this year either by the police and army forces or by Sendero.

Sendero bombings have blacked out Lima and destroyed factories. Earlier this year, the guerrillas machine-gunned and dynamited the Acción Popular ruling party headquarters and a police station, killing two persons in each attack and wounding dozens. Sendero says that it plans to take over the country by 1990.

In Mexico, Draconian Measures Are Working

(Continued From Page 9)

voiced approval of Mr. de la Madrid for at least keeping his word that the shareholders would be paid back. Furthermore, as Mr. Canal of Bank of America noted, "The bankers themselves couldn't agree how much their properties were worth or how they wanted to be paid."

The indemnification controversy served to highlight the often subtle political forces constraining the Mexican presidency, with its seemingly monarchical powers. Mr. de la Madrid was plainly disgruntled last year when the bank nationalization plan was announced, and Mr. López Portillo later let it be known that his successor, then president-elect, was "informed, not consulted" about the decision.

Yet a reversal of the decree would have provoked bitter resentment in labor circles, observers say. And without union cooperation, President de la Madrid could never have implemented his austerity program. Despite inflation rates of 80 percent this year and 100 per-

cent in 1982, organized labor has settled for pay raises of less than 50 percent annually. Leaders of the major unions have also refrained from public attacks on the rising unemployment rate, even though 800,000 workers are said by the government to have lost their jobs in the heavily unionized construction sector alone.

Politically, Mr. de la Madrid has probably gone as far as he can toward satisfying the private sector clamor for a "denationalization" of the commercial banking system, a local analyst said. Aside from indemnifying the former bank owners, the administration will soon put up for sale 34 percent of the shares of the nationalized banks, with the restriction that no individual or company can purchase more than 1 percent of the outstanding stock. The government also plans to sell the bank-owned shares of private companies that were acquired through the nationalization.

In another move applauded by many in the business community, the government is halving the num-

ber of Mexico's commercial lending institutions, eliminating some of the original 60 nationalized banks and loan associations and merging others. Even before their nationalization, many of the smaller lending firms were virtually bankrupt, and some banking officials believe service will be improved by this streamlining.

But the former bankers and some other businessmen see these changes as unwelcome evidence of further consolidation of state control over the nation's financial network. "The banking system is not the same as it was," said a prominent Mexico City industrialist, who asked not to be named. He said many management-level employees had left "since the nationalization, and those that have stayed are taking an increasingly bureaucratic approach to loans."

The manager of a major branch office of Banamex, Mexico's second-largest commercial bank, agreed that the state takeover had affected lending procedures. "We are forced to be more cautious,"

said the banker, who requested anonymity. "Every individual branch is supposed to show a consistent profit now, so we don't look for new clients, which always carries a risk. It is safer for our jobs to just maintain the status quo."

Some businessmen, however, defended the performance of the state-run banks, attributing bureaucratic obstacles to the awkward transition from private to state ownership. And the main factor affecting portfolio management, they say, is the acute liquidity squeeze that took hold in Mexico well before the nationalization.

In his state of the nation message, the president repeated his pledge that the banks will be run "for the people, not for a new minority of leaders." He said that bank deposits, attracted by record fixed-term interest rates of 55 percent and higher, have quadrupled since last year. Mr. de la Madrid also reported that commercial lending activity has "nearly doubled" since last May.

December 1983

8 Thursday

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The fourth annual International Herald Tribune/Oil Daily conference on "Oil and Money in the Eighties" will take place December 8 and 9 in London. The program will include sessions on the following subjects: the investment outlook for energy, structural versus cyclical change in the oil markets, the impact of declining oil prices and demand on the producing countries, and the oil futures market.

For further information, please contact the International Herald Tribune Conference Office, 181 Avenue Charles-de-Gaulle, 92521 Neuilly Cedex, France. Telephone: (33-1) 747-12-65, Ext. 316. Telex: 612832.

INTERNATIONAL
Herald Tribune
Published With The New York Times and The Washington Post

NYSE Most Actives					
	Vol.	High	Low	Close	Change
ATT	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Western	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Aves	1,411,111	25 1/2	24 1/2	24 1/2	- 1/2
Goldfil	1,225,000	43 1/2	43 1/4	43 1/2	+ 1/4
Marlys	1,170,000	29 1/2	28 1/2	28 1/2	- 1/2
ToyRusA	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
IBM	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4
Diamond	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Bea-Pd	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Prokum	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Unocal	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Bank	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Chrysal	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4
Digital	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4

Dow Jones Averages					
	Open	High	Low	Close	Change
Indus	1249.49	1255.99	1238.79	1243.99	+ 530
Trans	890.92	895.48	883.84	884.01	+ 135
UHI	132.96	134.88	132.32	133.62	+ 0.43
Comp	497.41	502.71	494.32	497.16	+ 2.15

NYSE Diaries		
	Close	Prev.
Advanced	707	1016
Declined	828	591
Unchanged	410	278
Total Issues	1975	1983
New Highs	64	78
New Lows		

NYSE Index									
Category	High	Low	Close	Change	Category	High	Low	Close	Change
Commodities	112.34	112.12	112.34	+ 0.01	Utilities	112.34	112.12	112.34	+ 0.01
Industrials	112.34	112.12	112.34	+ 0.01	Finance	112.34	112.12	112.34	+ 0.01
Transport	112.34	112.12	112.34	+ 0.01	...	...	...	...	...

Wednesday's
NYSE
Closing

Vol. 4 p.m. 11,234,567
Prev. 4 p.m. Vol. 10,123,456
Prev. Consolidated Close 123,456.78

Tables include the nationwide prices
Up to the closing on Wall Street

AMEX Diaries									
Category	High	Low	Close	Change	Category	High	Low	Close	Change
Advanced	112.34	112.12	112.34	+ 0.01	Declined	112.34	112.12	112.34	+ 0.01
Declined	112.34	112.12	112.34	+ 0.01	Unchanged	112.34	112.12	112.34	+ 0.01
Unchanged	112.34	112.12	112.34	+ 0.01	New High	112.34	112.12	112.34	+ 0.01

NASDAQ Index									
Category	High	Low	Close	Change	Category	High	Low	Close	Change
Composite	112.34	112.12	112.34	+ 0.01	Industrials	112.34	112.12	112.34	+ 0.01
Industrials	112.34	112.12	112.34	+ 0.01	Utilities	112.34	112.12	112.34	+ 0.01
Utilities	112.34	112.12	112.34	+ 0.01	...	...	...	...	...

AMEX Most Actives									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
AMEX	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	AMEX	1,000,000	100 1/2	100 1/4
...

NYSE Diaries									
Category	High	Low	Close	Change	Category	High	Low	Close	Change
Advanced	112.34	112.12	112.34	+ 0.01	Declined	112.34	112.12	112.34	+ 0.01
Declined	112.34	112.12	112.34	+ 0.01	Unchanged	112.34	112.12	112.34	+ 0.01
Unchanged	112.34	112.12	112.34	+ 0.01	New High	112.34	112.12	112.34	+ 0.01

Odd-Lot Trading in N.Y.									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
AT&T	1,000,000	27 1/2	27 1/4	27 1/2	+ 1/4	IBM	1,000,000	100 1/2	100 1/4
IBM	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	GE	1,000,000	30 1/2	30 1/4
GE	1,000,000	30 1/2	30 1/4	30 1/2	+ 1/4	...	...	...	...

Standard & Pears Index									
Category	High	Low	Close	Change	Category	High	Low	Close	Change
Industrials	112.34	112.12	112.34	+ 0.01	Utilities	112.34	112.12	112.34	+ 0.01
Utilities	112.34	112.12	112.34	+ 0.01	...	...	...	...	...
...

Dow Jones Bond Averages									
Category	High	Low	Close	Change	Category	High	Low	Close	Change
Govt	112.34	112.12	112.34	+ 0.01	Corp	112.34	112.12	112.34	+ 0.01
Corp	112.34	112.12	112.34	+ 0.01	...	...	...	...	...
...

AMEX Stock Index									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
AMEX	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	AMEX	1,000,000	100 1/2	100 1/4
...

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CURRENCY									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
USD	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	EUR	1,000,000	100 1/2	100 1/4
EUR	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	GBP	1,000,000	100 1/2	100 1/4
GBP	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	...	...	...	...

Interest									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
USD	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	EUR	1,000,000	100 1/2	100 1/4
EUR	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	GBP	1,000,000	100 1/2	100 1/4
GBP	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	...	...	...	...

Interest									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
USD	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	EUR	1,000,000	100 1/2	100 1/4
EUR	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	GBP	1,000,000	100 1/2	100 1/4
GBP	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	...	...	...	...

Interest									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
USD	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	EUR	1,000,000	100 1/2	100 1/4
EUR	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	GBP	1,000,000	100 1/2	100 1/4
GBP	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	...	...	...	...

Interest									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
USD	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	EUR	1,000,000	100 1/2	100 1/4
EUR	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	GBP	1,000,000	100 1/2	100 1/4
GBP	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	...	...	...	...

Interest									
Symbol	Vol.	High	Low	Close	Change	Symbol	Vol.	High	Low
USD	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	EUR	1,000,000	100 1/2	100 1/4
EUR	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4	GBP	1,000,000	100 1/2	100 1/4
GBP	1,000,000	100 1/2	100 1/4	100 1/2	+ 1/4

(Continued on Page 14)

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Handwritten signature/initials

THURSDAY, SEPTEMBER 22, 1983

WALL STREET WATCH

By EDWARD ROHRBACH

Analysts See Market at New Heights, Or Starting Violent Decline, or Both

With the stock market hitting a new high this week, the rarefied air has as many analysts dizzy and gasping for breath as those steady with optimism.

A prominent skeptic is Morgan Stanley's John A. Mendelson, the firm's technical expert. In May, he saw the bull market's first leg over and predicted a "long, boring, low-volume decline" lasting most of 1983.

"This view is beginning to shift toward expectation of a more violent decline, something like the sharp break of October 1978," he says now.

His foreboding of another October massacre for stocks is based on "divergences" he sees between the record-breaking performances of the 30 issues in the Dow Jones industrial average and the lagging general market.

"Virtually every stock market statistic is now showing significant divergence against the DJIA," he warns.

Mr. Mendelson notes that such major inconsistencies on Wall Street — such as the "new highs" list on the New York Stock Exchange's failing to mirror the Dow's robust advance — do not usually continue very long.

"Obviously, they can be corrected by the general market rising to meet the DJIA or the Dow average getting in line with the rest of the market. Unfortunately, the latter appears imminent."

But Martin Zweig, editor of the Zweig Forecast market advisory letter, dismisses these divergences as no problem.

"I expect the Dow's new high will encourage more public buying (and, on the other hand, some institutional profit taking)," he said. "This should help secondary stocks to begin playing catch-up with the big stocks."

Mr. Zweig has moved his model portfolio this week up to an 80-percent invested position with the recommendation of four new buys: AMR, ARA Services, General Dynamics and Revco D.S.

Stocks "back in buying range" are Visual Technology, Ultimate and Tampax. Mr. Zweig also favors the regional banks, especially Trust Company of Georgia, as well as Walgreens, Golden Nugget and U.S. Tobacco.

"The caution flag for equities remains up," comments J. Anthony Bookin in the Bank Credit Analyst of Toronto. "The market remains vulnerable to a continuation of the corrective process, either in the form of basebuilding in the averages and selective correction of individual sectors, or in the form of a terminal shakeout."

Interest-Rate Downtrend

"Blue chips is where most of the action will be for a while," states another investment letter, Grayson Market Advisory. "Not until interest rates resume a sharp downtrend are the more speculative areas of the market likely to show much in the way of sustained gains."

The letter notes that from August 1982 until last May stocks in the Dow trailed the performance of the OTC, American Exchange and broader-based NYSE averages, while since then the reverse has been true.

"It tells us the speculative froth is off the market for now," Grayson says. "The market has become very selective. Looking at breadth and other technical indicators confirms that the market is being held up by only a few stocks while many undergo significant corrections."

But the Roesch Market Memo says: "Many think this building second leg of the bull market — which should carry through this year — will feature the 'Nifty Fifty' Blue Chips and other large capitalization stocks (mostly cyclical). We disagree with that assumption strongly. We think the winners will be those companies — of whatever size and ilk — that show a viable, reliable earnings growth trend."

A slide in interest rates should continue to propel Wall Street higher for about two months, says Henri Cozineau, portfolio manager at Credit Industriel et Commercial, a Paris bank.

"But the Federal Reserve's current policy of pumping more money into the system promises to make the rally short-lived by again backing up rates around the first of December," he said.

He expects the Dow average to top out at about 1,300, then retreat about 100 points until the cyclical economic recovery gets translated into sharply higher profits for selected companies.

Mr. Cozineau favors the hospital management stocks, and mentioned Hospital Corp. of America, Lifemark and Humana. Other market leaders he points to are Waste Management, Baxter Travenol, Johnson & Johnson, Abbott Labs, Gannett, Dun & Bradstreet and Schlumberger.

Robert Prechter, publisher of the Elliott Wave Theorist of Gainesville, Georgia, says the fifth and final wave of the great Elliott bull market that began in 1932 will carry the Dow to 3,600 territory during 1987. His forecast is based on a market momentum figure achieved last July that was the highest since 1943. Near-term, he sees an intermediate wave under way that "should top Dow 1,340, with early October the most likely time for a peak."

International Herald Tribune

CURRENCY RATES

Interbank exchange rates for Sept. 21, excluding bank service charges									
	\$	£	D.M.	F.F.	L.L.	Gld.	S.F.	D.K.	
Australia	2.8825	4.4945	111.875	27.08	0.1889	5.542	138.12	31.125	
Belgium	2.481	21.205	20.795	6.708	3.355	18.877	24.75	5.42	
Canada	2.467	4.9165	33.99	1.444	0.955	12.435	27.85		
Denmark	1.5955	—	4.0725	12.108	2.0114	4.89	81.875	3.2512	14.418
France	1.48255	2.41330	69.29	19.363	52.25	20.77	241.95	147.45	
Germany	1.892	1.822	6.325	8.222	0.025	0.038	6.426	0.1044	
Italy	0.809	12.13	302.34	—	3.027	20.21	14.975	27.98	94.18
Japan	2.1408	2.3531	81.95	24.80	0.1748	72.45	4.01	23.54	
Netherlands	0.8259	8.6643	2.2729	4.8715	1.8470	3.242	43.907	1.847	8.144
Switzerland	1.89145	0.49229	4.0701	1.48322	3.1365	56.687	3.271	10.667	

Dollar Values									
	U.S.	£	D.M.	F.F.	L.L.	Gld.	S.F.	D.K.	
100 U.S.	1.0000	0.7146	3.4753	6.5595	0.3756	1.9360	16.436	3.7594	
100 £	1.4054	1.0000	4.8357	9.1663	0.5357	2.7063	23.046	5.0481	
100 D.M.	0.2884	0.2012	1.0000	1.9360	0.1066	0.5112	4.3750	0.9549	
100 F.F.	0.1523	0.1083	0.0516	1.0000	0.0578	0.2875	2.4566	0.5357	
100 L.L.	0.0026	0.0019	0.0009	0.0009	1.0000	0.0485	0.4190	0.0916	
100 Gld.	0.0511	0.0369	0.0184	0.0184	0.0092	1.0000	8.4666	1.8229	
100 S.F.	0.0044	0.0032	0.0016	0.0016	0.0008	0.0485	1.0000	0.2146	
100 D.K.	0.0263	0.0187	0.0094	0.0094	0.0048	0.0485	0.2146	1.0000	

Source: Reuters. (a) Commercial bank rates. (b) Amounts needed to buy one pound (£) or one dollar (\$). (c) Not quoted. N.A.: not available.

INTEREST RATES

Eurocurrency Deposits									
	1M.	3M.	6M.	9M.	12M.	15M.	18M.	21M.	24M.
1M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
3M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
6M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
9M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
12M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4

Key Money Rates									
	U.S.	£	D.M.	F.F.	L.L.	Gld.	S.F.	D.K.	
Discount Rate	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
Federal Funds	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
Prime Rate	11 1/4	11 1/4	11 1/4	11 1/4	11 1/4	11 1/4	11 1/4	11 1/4	11 1/4
Broker Loan Rate	10 1/4	10 1/4	10 1/4	10 1/4	10 1/4	10 1/4	10 1/4	10 1/4	10 1/4
Comm. Paper, 30-179 days	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
3-month Treasury Bill	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
6-month Treasury Bill	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
CD's 30-90 days	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
CD's 60-90 days	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4

West Germany									
	1M.	3M.	6M.	9M.	12M.	15M.	18M.	21M.	24M.
1M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
3M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
6M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
9M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
12M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4

Japan									
	1M.	3M.	6M.	9M.	12M.	15M.	18M.	21M.	24M.
1M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
3M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
6M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
9M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4
12M.	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4	9 1/4

Source: Commercial Bank of Tokyo, Ltd. Bank of Japan.

Petroven's Challenge to Calderón Berti

Big Revenue Decline, Scandal Are Hurdles

By Kenneth N. Gilpin
New York Times Service

CARACAS — By any measure, the past 12 months have been difficult ones for Petrobras de Venezuela. The state-owned oil company is one of Latin America's largest business concerns, and its 40,000 employees generate \$15 billion a year, more than 90 percent of the country's foreign exchange earnings.

Among other things, the holding company, set up in 1976 with the nationalization of affiliates of Exxon, Shell and Mobil, has been hit by a sharp drop in revenue and rocked by an internal scandal.

It has a new president, Humberto Calderón Berti, whose appointment has been criticized by many in the industry as well as by the presidential candidates from both of the country's major political parties. Indeed, both candidates have said they intend to replace him after the elections in December.

The company also has a short-term cash flow problem.

All this has come as something of a shock for the Venezuelans. Since the first well began pumping here 70 years ago, they have tended to shrug off many of their problems with the saying, "There is oil enough for everyone."

To be sure, if anything, there is more oil now than there ever was as a result of a vast program designed to increase the nation's proven reserves and improve the ability of Petrobras, as it is known, and its operating companies to pump them. Between 1976 and 1982 Petrobras's investment budget increased tenfold, to \$3.95 billion. Thus, no one doubts the company will survive.

But questions persist about how it will



Humberto Calderón Berti at a meeting of OPEC last March in London.

emerge from its current tribulations. "This year and next are critical years," said Kim Foad, director of the Daily Journal, Venezuela's English-language newspaper.

To be fair, the problems that the company faces are not, in the main, of its own making.

They began last September, when the government asked Petrobras to help ease the nation's foreign exchange crisis. In 1982 the company had revenue of \$15.6 billion, and the government asked that about \$6 billion in liquid assets be transferred to the central bank.

If the oil market had not turned sour,

Petrobras might have been able to overcome the freezing of the \$6 billion. But the oil market did go bad, and the decision in March by the Organization of Petroleum Exporting Countries to cut its prices by 15 percent hurt badly.

As a result, the company now forecasts that revenue for 1983 will decline by \$2 billion from levels a year earlier to \$13.7 billion, and stabilize at that level next year.

In the company's sprawling, ultramodern headquarters in downtown Caracas, visitors have to pass through two sets of security

(Continued on Page 15, Col. 1)

N.Y. Stocks Slide Back in Profit-Taking

United Press International

NEW YORK — Investors cashed in on profits Wednesday in fairly active trading on the New York Stock Exchange, driving the Dow Jones industrial average down from its latest record high.

The blue-chip issues that have been in the spotlight the past two weeks were the ones that came under fire. Takeover situations also attracted some attention.

The Dow traded in a narrow range most of the day, closing down 5.9 to 1,243.29. It rose 15.25 points Tuesday to a record 1,249.19. Several analysts said they had expected some investors to take profits Wednesday.

Declines led advances 9 to 7. Volume was 91.5 million shares,

down from 103 million Tuesday.

"The response to Tuesday's new high was one big yawn," said Anthony Tabell, partner in Delafield, Harvey & Tabell of Princeton, New Jersey. "The market hasn't done anything spectacular in four months and maybe it won't do anything for another few months."

The bond market, faced with a \$14.25-billion Treasury refunding, also faltered after rallying Tuesday. "There was no follow-through in either market and that made some people nervous," said Hugh Johnson of First Albany.

"The market is caught between institutions dressing up their portfolios for the fourth quarter and some traders doing long-term profit-taking from the year-old bull

market," said Barry Berlin of Shearson/American Express.

Investors were still optimistic about prospects of the Federal Reserve's easing credit in the near future, since the U.S. money supply growth has slowed in the past month.

A group of experts predicted late Tuesday that the Fed would report a \$200-million decline in the money supply this Friday, which would make conditions ripe for easier credit. Even though the supply rose, American Telephone & Telegraph was the most active NYSE-listed issue, off 1/4 to 67 1/2.

The company said its third-quarter earnings would be well below analysts' estimates. Revlon fell 1 1/2 to 31 1/2.

Coleco Industries lost 1 1/2 to 37 1/2; the company again delayed shipment of its Adam game computer to retailers. Texas Instruments shed 2 1/2 to 116 1/2. The stock slumped 3/4 Tuesday after the company said sales of home computers and related products were below planned levels in July and August.

Cos. added 1/4 to 26 1/2. Northwest, which had been sought by Allen & Co., agreed to merge with Williams in a transaction valued at more than \$725 million.

Avon Products was the third-most active issue, off 2 1/2 to 24 1/2. The company said its third-quarter earnings would be well below analysts' estimates. Revlon fell 1 1/2 to 31 1/2.

Coleco Industries lost 1 1/2 to 37 1/2; the company again delayed shipment of its Adam game computer to retailers. Texas Instruments shed 2 1/2 to 116 1/2. The stock slumped 3/4 Tuesday after the company said sales of home computers and related products were below planned levels in July and August.

Northwest Energy was second on the list, up 1 1/2 to 38 1/2. Williams

Switzerland Makes Formal Protest To U.S. Over Marc Rich Subpoena

By Marcus Ferrar
Reuters

BERN — The Swiss government formally protested to Washington on Wednesday over U.S. attempts to seize evidence against the international commodities trader, Marc Rich & Co., in Switzerland.

Mathias Kraft, a senior Foreign Ministry official, said at a news conference that a U.S. Energy Department subpoena of Aug. 25 ordering the Swiss-based company to hand over documents violated international law because it infringed on Swiss sovereignty.

Swiss Ambassador Anton Hegger was directed to make a formal protest at the U.S. State Department on Wednesday.

The Justice Ministry, meanwhile, ordered Marc Rich & Co., which is based in Zug, to refrain from handing over the documents sought by the Energy Department. The penalty for disobeying the order would be up to three months in prison or

20,000 Swiss francs (about \$9,000) in fines.

Marc Rich, 49 years old, an American of Belgian origin, and his companies and two associates face the largest tax-evasion case in U.S. history. An indictment issued Monday in New York accused them of evading \$48 million in U.S. taxes. They were also charged with mail and wire fraud, racketeering, conspiracy and illegally buying oil from Iran while Americans were held hostage in Tehran.

On Aug. 12, Swiss prosecutors confiscated documents that Marc Rich was preparing to send to the United States from Zug to comply with another subpoena issued for the tax investigations. The Justice Ministry then cited an economic-law forbidding companies to divulge information that could harm third parties — in this case, the firm's customers.

A Justice Ministry official, Lionel Frei, said that so far Swiss au-

thorities had not seized the documents sought by the Energy Department but that he did not exclude this eventually.

A U.S. attorney said Monday that U.S. authorities would seek the extradition from Switzerland of Mr. Rich and an associate, Pincus Green, also an American. A Swiss government spokesman said no request had been received so far.

Mr. Frei said that there was no intention of protecting possible criminals but that it was unacceptable that court sanctions be applied in Switzerland without going through the Bern government. A subpoena is an order to produce evidence under threat of court sanctions.

The Foreign Ministry official repeated its demand that the U.S. authorities go through established legal channels, which provide for Swiss authorities to assist foreign investigations under certain circumstances.

Williams Buys Northwest Energy for \$735 Million

Reuters

NEW YORK — Williams Cos., an energy and fertilizer group, has acquired Northwest Energy Co. for more than \$735 million, outbidding the investment house of Allen & Co., Williams announced Wednesday.

After days of negotiations, Williams said it signed a merger agreement to pay \$39 a share for Northwest's approximately 18.2 million shares outstanding.

The purchase price appeared overly generous to many followers of Northwest. But they believe that Williams is hoping for changes soon in natural gas pricing that could improve the industry's prospects.

John Henry, an analyst with E.F.

Hutton & Co., said his colleagues felt that Northwest, under current conditions, was worth between \$32 and \$34 a share.

"They didn't want a big fight," Mr. Henry said in explaining why Williams outbid Allen, a Wall Street investment house, by \$8 a share. Originally, Allen had won Northwest by offering \$31 a share.

BUSINESS BRIEFS

Broken Hill's Chairman Says Board Opposes Boosted Bid from Wigmore

MELBOURNE (Reuters) — The chairman of Broken Hill Proprietary Co., James McNeill, said Wednesday that BHP directors still recommend that shareholders reject the enhanced takeover bid by Robert Holmes & Court's Wigmore Ltd.

Mr. McNeill said that the changes made by Wigmore did not alter the BHP board's rejection of the offer. Wigmore's is 95-percent owned by Mr. Holmes & Court's Bell Group Ltd.

Wigmore Wednesday added 1 Australian dollar (\$1.1242) in cash and an option to buy a Wigmore share for 6 dollars to its first bid of two Wigmore shares for each BHP share.

Kaiser Rejects a New Takeover Offer

FONTANA, California (LAT) — Kaiser Steel Corp. has rejected a \$324.8-million acquisition bid by a Tulsa, Oklahoma-based group of investors in favor of an existing, but lower, bid from Minneapolis businessman Irwin L. Jacobs, the company's largest shareholder.

The Kaiser board rejected Tuesday that the offer from a group led by Tulsa industrialist J.A. Prates would give Kaiser's shareholders "more cash and a correspondingly reduced amount of preferred stock" than the Jacobs offer, which is currently valued at \$270.8 million.

But the board said the Prates group "does not have its financing in place, and its proposal would take at least several weeks longer to consummate, so there is less certainty of closing the Prates group proposal."

BAT Expects Profit to Rise This Year

LONDON (Reuters) — BAT Industries said Wednesday that it expects 1983 attributable profit to increase from last year at a rate well over the British inflation rate, having adverse currency movements.

Market sources noted that the latest year-to-year retail price inflation figure, to August, was 4.6 percent. BAT's 1982 attributable net profit was \$454 million, up 25 percent from 1981, on sales of \$1.15 billion.

Second-half tobacco results are expected to be appreciably better than in the first half, the company said. BAT said full-year attributable profit from tobacco will nevertheless show some decline from 1982. First-half trading profit from tobacco fell to \$221 million from \$284 million a year earlier.

Dresdner Bank's Rate Margin Shrinks

FRANKFURT (Reuters) — Dresdner Bank has seen a small decline in its interest-rate margin (the difference between the rate at which it borrows and the rate which it charges for loans) in recent months because of the higher costs of refinancing in the money market, Hans Friederichs, a management board spokesman, said Wednesday.

The bank currently has a margin of about 2.8 percentage points in its parent bank, compared with 2.9 points at the end of June, he said.

Olivetti and Philips in Disk Venture

IVREA, Italy (Reuters) — Olivetti Peripheral Equipment, a subsidiary of the Olivetti office-equipment group, said Wednesday it agreed to develop flexible memory disks with Philips Kommunikations Industrie of West Germany, a unit of the Philips group of the Netherlands.

The agreement is intended to permit the development of advanced products and to maintain competitiveness in the international market, a statement by Olivetti said. Memory disks are used with computers to store information.

An Olivetti spokesman said the agreement was limited in scope and mainly involved combining research efforts. Plans for other joint operations were not under consideration, he added.

Coleco Again Delays New Computer

WEST HARTFORD, Connecticut (AP) — The due date for the delivery of Coleco Industries Inc.'s Adam computer has been pushed back again, this time to mid-October, to assure that the units are in perfect working order.

The West Hartford-based company, which already postponed the delivery from late August to late September, conceded in Wednesday's editions of the Hartford Courant that the delay may heighten questions about its credibility.

Industry interest has been sharply focused on the timing of Adam's arrival because the new Coleco personal computer is touted as a state-of-the-art item at an exceptionally low price.

U.S. Research Program Wins Antitrust Waiver

By Michael Isikoff

WASHINGTON — Attorney General William French Smith has approved an unusual joint venture of eight New England high-technology firms that have banded together to seek Defense Department contracts.

The action, announced Tuesday, includes a blanket immunity from antitrust lawsuits.

Justice Department officials said it was the first time that they have granted such approval to a small-business joint research and development project.

The department acted under an obscure section of the Small Business Act that has not been used before. One official called it "kind of a lost provision of the law."

The venture, which is known as Small Business Technology Groups Inc., was described by officials as the kind of high-technology joint project that the administration is seeking to promote.

Formed earlier this year, the Boston-based group was set up to

look for government contracts, primarily from the Pentagon, for its member companies. Because the member firms have expertise in complementary areas, the intention is that they would create joint proposals for individual contracts, said Karen Hastie Williams, a lawyer for the group. Of the eight companies, none has more than 250 employees and some have fewer than 10.

In a prepared statement, Mr. Smith said the group "illustrates the sort of private initiative which the government ought not to discourage. It poses no threat to competition in any market."

He also repeated the administration's recent call for passage of broader legislation that would permit larger competing companies to establish joint research and development ventures without fear of antitrust suits.

The eight members of the group are Coverdale Associates Inc. of Newton, Massachusetts; Data Signal Corporation of Newton, Massachusetts; Electronics of Jericho, Vermont; Geo-Centers Inc. of Newton



William French Smith

Upper Falls, Massachusetts; Militech Corp. of Amherst, Massachusetts; PACER Systems Inc. of Burlington, Massachusetts; Spectral Sciences Inc. of Burlington, Vermont; Stratus Computer Inc. of Natick, Massachusetts.

China Expected to Win Entry to Textile Group

By Peter Griffiths

GENEVA — China, the world's largest textile producer, is likely to succeed in its bid to join the Multi-Fiber Arrangement, which governs most of the world's trade in textiles and clothing, according to trade sources here Wednesday.

During talks this week, the European Community told a Chinese delegation that it welcomed China's application for membership, expected to be made formally in December, and would support it, the sources said.

The Chinese have said that they are prepared to accept without reservation all the provisions of the arrangement, they said.

Joining the MFA would be China's first major step into the world of multilateral trading arrangements since its membership in the General Agreement on Tariffs and Trade lapsed in 1950.

On Friday, the Chinese group will meet Peter Murphy, a U.S. trade ambassador who, according to diplomatic sources, will tell them

that Washington also has no objection to Beijing's membership in the arrangement. The Geneva-based GATT negotiated the MFA in 1974. The MFA has been renewed several times since then, and the current arrangement expires in July 1986.

Trade sources said that even such major cotton producers as Pakistan, India and Egypt, which may fear Chinese competition, are very unlikely to object.

They are uneasy that Beijing might eat into their markets but would be happy to have its powerful support in the debate over what comes after the MFA, the sources said.

Third World textile producers argue that the MFA should be abolished because it is a protectionist system and a departure from GATT's principles of free trade.

At a meeting last week with GATT's director-general, Arthur Dunkel, the Chinese delegation made it clear that Beijing had no immediate intention of joining GATT, which would be a much longer and more complex process than gaining membership in the MFA, according to trade sources.

Nationalist China was a signatory to GATT's establishment in 1947 but withdrew in 1950. Beijing now says that the Nationalists had no right to take China out and that it could resume membership.

Cable & Wireless, U.S. Railroad in Fiber-Optic Deal

Compiled by Our Staff From Dispatches

LONDON — Cable & Wireless and the Missouri-Kansas-Texas Railroad Co. agreed to form a venture to use the railroad's rights-of-way in Texas for telecommunications cables, the British company announced here Wednesday.

The Missouri-Kansas-Texas will be the major shareholder, with 70 to 80 percent of the venture. Cable & Wireless will hold 20 to 30 percent and have proportionate representation on the board. Eric Sharp, chairman and chief executive of Cable & Wireless, said, "I hope this is only the first of a succession of joint ventures."

A fiber-optic cable system will be laid along about 560 miles (900 kilometers) of the railroad's rights-of-way connecting Dallas and Houston by way of San Antonio and Austin. Along much of the cable route there will be a capacity of more than 24,000 voice channels.

"The initial requirement will supplement the railroad's longlines communications needs, which are currently being supplied by other telecommunications systems," Mr. Sharp said. "But the fiber-optic cable system we are planning will also have sufficient capacity to provide other large users with a high-quality, low-cost digital communications trunk system."

Third World Debt Will Far Exceed Earnings by '85, UNCTAD Reports

By Brj Khindaria

International Herald Tribune

GENEVA — The total debt of developing countries will reach at least \$737 billion by the end of 1984, far exceeding the countries' export earnings, the secretariat of the United Nations Conference on Trade and Development said Wednesday.

A growing number of countries will stand on the edge of bankruptcy, placing serious strains on the ability of foreign banks and international institutions to reschedule debts, UNCTAD said. It said that debt reschedulings late last year and this year may ease pressure from developing countries for a short period but that new countries are certain to reach the point of insolvency, as the agency expects, the economic recovery in industrialized countries is too weak to bring more export income to the Third World.

In its annual trade and development report, UNCTAD says that, while the beginnings of recovery in the developed world offer "a glimmer of hope," developing countries face economic and social problems far worse than before.

The report said the Third World's medium- and long-term debt is likely to reach \$637 billion

by the end of next year, while short-term loans with maturities of less than 12 months should total at least \$100 billion.

Although the growth of foreign debt has slowed in recent years, the total is expected to reach 128 percent of developing countries' export earnings by the end of next year, compared with 99 percent in 1981, UNCTAD said.

Even if the countries manage to earn enough to repay their debt, they will remain a long way away from being able to generate large enough export surpluses to become important buyers of Western goods, the agency predicted.

The agency estimated that the U.S. recovery would last no more than 18 months if world demand for U.S.-made products did not increase. At the same time, it said, real interest rates must drop, allowing fuller use of capacity in factories.

In addition to high interest rates, reduced private bank lending has hurt the Third World's ability to buy Western goods, the report noted.

ed, predicting that such lending would fall to \$7.9 billion in 1984 from \$23 billion in 1981. To make matters worse, direct foreign investment in developing countries will also drop, to \$11 billion next year from \$15.4 billion in 1981, UNCTAD forecast.

Although loans from multilateral agencies such as the World Bank and the International Monetary Fund should rise to \$15 billion in 1984 from \$10 billion in 1981, only the private sector can provide the large volume of funds needed by developing countries, through loans, direct investments and export credits, the agency argued.

The report said that developing countries would need \$141 billion next year just to pay debt service and remit profits to foreign investors. But the countries are expected to run a current-account deficit of at least \$76 billion, which, while less than the \$121-billion deficit of 1981, makes it impossible for them even to service their debt without new loans, UNCTAD noted.

Revenue Drop, Scandal Hurdles for Petroven

(Continued from Page 13)

checks before gaining entry. But the breathtaking view from executive offices of the mountains that rise above the Venezuelan capital is worth it.

And the discussion of the challenges facing the oil company is candid, although the top officials who are willing to talk do not want their names used.

"The two things — creation of the special fund in the central bank, which paid interest but froze part of the liquidity, and the reduction in export income — have produced a short-term cash flow problem," one executive said in an interview.

The official said a variety of approaches were being examined. These include redemption of \$1.7 billion worth of bonds currently held in a Petroven account at the central bank and a reduction in the company's tax rate, which on an effective basis is 82 percent of net income.

But he ruled out the possibility that the company might go to the international capital markets to raise cash, something it has never done.

Venezuela has outstanding foreign debts of more than \$33 billion, \$18.6 billion of which is due this

year and next. The country is more than \$500 million behind in its debt payments this year, and bankers are unwilling to discuss refinancing terms until the country reaches agreement with the International Monetary Fund on an economic stabilization program.

But short-term cash flow is only one of several challenges facing Mr. Calderón Berti, the new president.

J. Vontobel Considers Setting Up Base in N.Y.

Reuters

ZURICH — J. Vontobel und Co., Zurich's largest private bank, is considering establishing a base in New York to handle part of its portfolio management for international customers, a senior partner, Hans Vontobel, said Tuesday. He declined to elaborate.

Mr. Vontobel was speaking at a news conference in which he gave details of a decision he said was announced in July to transform the bank into a joint stock company.

Mr. Calderón Berti, the former minister of energy and mines, last month replaced General Rafael Alfonso, the man who had led the company since its establishment.

For one thing, Mr. Calderón Berti arrived just after Petroven went through its first major scandal this summer, although for the moment, talk about it has died down. Five marketing agents have been indicted by the government on charges that they sold information regarding imminent price changes to other companies and individual purchasers.

"We won't know for some time how extensive the degree of corruption was," Mr. Fudad said. "But the real concern is that it could involve more than marketing, and could have influenced winners of enormous refining and upgrading contracts."

The announcement of the indictment shocked the public, which had come to regard Petroven de Venezuela as a government entity above reproach.

"I never thought such a thing

could happen," said one company executive who knows all the men involved. "The feeling within the company here initially was surprise, shock — and then relief that it was dealt with so quickly."

But perhaps the most important development in the next few months concerns the career of Mr. Calderón Berti himself. Under company bylaws, his term should last two years. But there are few observers here who expect him to last that long.

"You cannot say that any man is dead before he is buried, but politically it would be very difficult to keep him," the president of a private bank here said.

Record U.K. Tourism Mark

Reuters

LONDON — Britain earned a record \$4 billion (\$6 billion) from tourism last year, up 7 percent from 1981 tourism income, the British Tourist Authority said Wednesday in its annual report. About 11.6 million people visited Britain in 1982, up 2 percent from 1981.

Weekly net asset value

Tokyo Pacific Holdings N.V.

on September 19, 1983: U.S. \$108.67

Listed on the Amsterdam Stock Exchange

Information: Pierson, Hekking & Pierson N.V., Herengracht 214, 1016 BS Amsterdam.

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA

In re:

MAGNUSON COMPUTER SYSTEMS, INC.,
a California corporation, aka
MAGNUSON SYSTEMS, INC. and
MAGNUSON SYSTEMS CORPORATION.

Chapter 11 Case
No. 83-00867-A

Debtors.

NOTICE OF LAST DAY TO FILE PROOFS OF CLAIM OR INTEREST

TO THE CREDITORS OF MAGNUSON COMPUTER SYSTEMS, INC. AND TO ANY PERSON OR GOVERNMENTAL UNIT THAT ASSERTS A CLAIM AGAINST MAGNUSON COMPUTER SYSTEMS, INC.:

PLEASE TAKE NOTICE that the United States Bankruptcy Court for the Northern District of California made an order on September 7, 1983 that requires all entities that assert claims which arose or which are deemed to have arisen prior to March 7, 1983, against Magnuson Computer Systems, Inc., a California corporation, aka Magnuson Systems, Inc. and Magnuson Systems Corporation ("Magnuson"), whose claim has not been scheduled by Magnuson or whose claim has been scheduled as disputed, contingent, unliquidated or unknown, and that wish to vote on a plan of reorganization or to share in any distribution in this case, to file proofs of claim or interest on or before 4:00 p.m., November 15, 1983. A CLAIM OR INTEREST THAT IS NOT SCHEDULED OR THAT IS SCHEDULED AS DISPUTED, CONTINGENT, UNLIQUIDATED OR UNKNOWN AND IS NOT FILED BY NOVEMBER 15, 1983 WILL BE FOREVER BARRED FROM PARTICIPATING IN THIS CASE, FROM VOTING WITH RESPECT TO ANY PLAN OF REORGANIZATION, AND FROM RECEIVING ANY DISTRIBUTION UNDER ANY PLAN OF REORGANIZATION; nevertheless, the holder of such unfiled claim or interest shall be bound by the terms of plan of reorganization if the plan is confirmed by the court.

Claims solely for interests represented by Magnuson stock are not required to file proofs of claim or interest. Instead, notices, ballots, and distributions will be sent to the holders of record (as of dates to be subsequently determined by the Bankruptcy Rules or Orders of the Court) as reflected in the records of the stock transfer agent. However, proofs of any and all claims and interest based on transactions in the Debtor's publicly traded securities, including but not limited to claims for damages or rescission based on the purchase or sale of such securities, must be filed by November 15, 1983.

ALL PROOFS OF CLAIM OR INTEREST MUST BE FILED BY MAIL WITH THE CLERK OF THE COURT, UNITED STATES BANKRUPTCY COURT, NORTHERN DISTRICT OF CALIFORNIA, 209 U.S. POST OFFICE BUILDING, ST. JAMES PARK STATION, SAN JOSE, CALIFORNIA, 95131, OR BY DELIVERY TO THE CLERK AT THAT ADDRESS.

Any entity that asserts a claim against Magnuson arising out of the rejection by Magnuson of an executory contract or unexpired lease, or arising out of the recovery by Magnuson of a voidable transfer, or arising out of the incurrence of certain taxes, as described in Bankruptcy Code 502(g), 502(h), or 502(i), respectively, and that wishes to have such claim allowed in this case, must file a proof of such claim with the Clerk of this court within thirty (30) days after the entry of an order approving rejection of the executory contract or unexpired lease, within thirty (30) days after the entry of an order or judgment avoiding a transfer, or within thirty (30) days after the relevant tax claim arises, or November 15, 1983, whichever is later.

Any proof of claim previously filed with the clerk of this court prior to the mailing of this notice shall be deemed to be and shall be treated as a properly filed proof claim subject to the right of Magnuson or any party in interest to object to the allowance thereof. NO ADDITIONAL CLAIM IS REQUIRED.

DATED: September 13, 1983.

MURPHY, WEIR & BUTLER
Attorneys for Magnuson Computer Systems, Inc.

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA

In re:

MAGNUSON COMPUTER SYSTEMS, INC.,
a California corporation, aka
MAGNUSON SYSTEMS, INC. and
MAGNUSON SYSTEMS CORPORATION.

Chapter 11 Case
No. 83-00867-A

Debtors.

NOTICE OF LAST DAY TO FILE PROOFS OF CLAIM OR INTEREST (EQUITY SECURITIES AND RELATED CLAIMS)

TO SHAREHOLDERS OF MAGNUSON COMPUTER SYSTEMS, INC. WARRANT HOLDERS OF MAGNUSON COMPUTER SYSTEMS, INC. PERSONS ASSERTING CLAIMS OR DAMAGES ARISING FROM THE PURCHASE OR SALE OF MAGNUSON COMPUTER SYSTEMS, INC. SECURITIES PERSONS ASSERTING CLAIMS OR DAMAGES BASED ON THE DEBTORS' LIABILITY FOR CONTRIBUTION, INDEMNITY, PAYMENT OF A CO-DEBTOR ARISING FROM A JUDGMENT, RIGHT OR CLAIM BASED ON THE PURCHASE OR SALE OF MAGNUSON COMPUTER SYSTEMS, INC. STOCK, INCLUDING CO-DEFENDANTS IN BILL ROTHFARB, ON BEHALF OF HIMSELF AND ALL OTHERS SIMILARLY SITUATED V. WILLIAM E. HAMBRECHT, ET AL., NO. C82-1065-WHO; ARTHUR B. GAUSS, ON BEHALF OF HIMSELF AND OTHERS SIMILARLY SITUATED V. MAGNUSON COMPUTER SYSTEMS, INC., ET AL., NO. C82-1091-WHO.

PLEASE TAKE NOTICE that the United States Bankruptcy Court for the Northern District of California made an order on September 7, 1983 that requires all persons or entities that assert claims which arose or which are deemed to have arisen prior to March 7, 1983, against Magnuson Computer Systems, Inc., a California corporation, aka Magnuson Systems, Inc. and Magnuson Systems Corporation ("Magnuson"), to file a proof of claim or interest with the court on or before 4:00 p.m., November 15, 1983.

YOU NEED NOT FILE A CLAIM IF:

(1) You own Magnuson stock and do not assert any other claim against Magnuson, including a claim for damages arising from the purchase or sale of securities, or

(2) Magnuson has scheduled you as a creditor in a fixed, undisputed amount.

YOU MUST FILE A CLAIM IF:

(1) You presently own, or have ever owned, Magnuson stock and assert a claim for damages or rescission based on the purchase or sale of Magnuson stock, whether or not you are participating as a class member in Bill RothfARB, on behalf of himself and all others similarly situated V. William E. Hambrecht, et al., No. C82-1065-WHO; Arthur B. Gauss, on behalf of himself and others similarly situated V. Magnuson Computer Systems, Inc., et al., No. C82-1091-WHO (the "Class Action").

(2) You have been scheduled as having a disputed, contingent, unliquidated, or unknown claim, or

(3) You assert a claim against Magnuson arising out of your liability for claims arising out of the purchase or sale of Magnuson stock. This includes all defendants in the Class Action who assert any claim against Magnuson arising from or out of the Class Action.

Any person or entity who is required to file a claim under the court's order of September 7, 1983, who fails to file a claim by November 15, 1983, will be forever barred from participating in the Chapter 11 case, or receiving any distribution under any plan of reorganization, and will be bound by the terms of any plan of reorganization if the plan is confirmed by the court.

ALL PROOFS OF CLAIM OR INTEREST MUST BE FILED BY MAIL WITH THE CLERK OF THE COURT, UNITED STATES BANKRUPTCY COURT, NORTHERN DISTRICT OF CALIFORNIA, 209 U.S. POST OFFICE BUILDING, ST. JAMES PARK STATION, SAN JOSE, CALIFORNIA, 95131, OR BY DELIVERY TO THE CLERK AT THAT ADDRESS.

IF YOU ASSERT A CLAIM AGAINST MAGNUSON BASED ON TRANSACTIONS IN MAGNUSON'S STOCK, INCLUDING CLAIMS FOR DAMAGES OR RESCISSION BASED ON THE PURCHASE OR SALE OF SECURITIES, YOU MUST FILE A CLAIM EVEN IF YOU ARE PRESENTLY INCLUDED IN THE CLASS ACTION NOW PENDING IN THE UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF CALIFORNIA, ENTITLED BILL ROTHFARB, ON BEHALF OF HIMSELF AND ALL OTHERS SIMILARLY SITUATED V. WILLIAM E. HAMBRECHT, ET AL., NO. C82-1065-WHO; ARTHUR B. GAUSS, ON BEHALF OF HIMSELF AND OTHERS SIMILARLY SITUATED V. MAGNUSON COMPUTER SYSTEMS, INC., ET AL., NO. C82-1091-WHO.

DATED: September 13, 1983.

MURPHY, WEIR & BUTLER
Attorneys for Magnuson Computer Systems, Inc.

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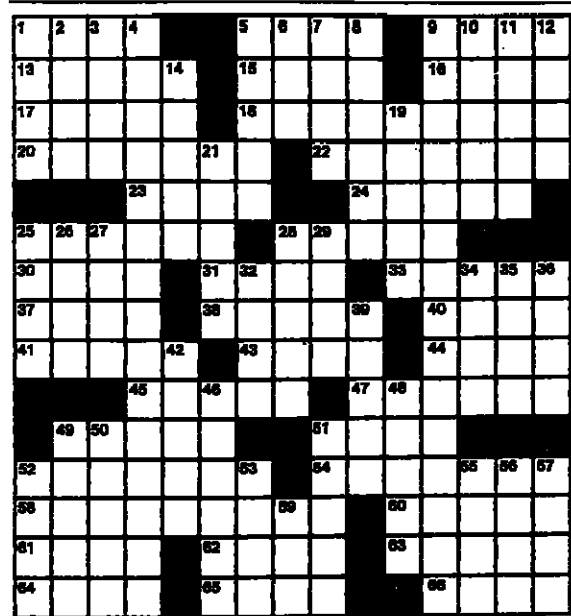
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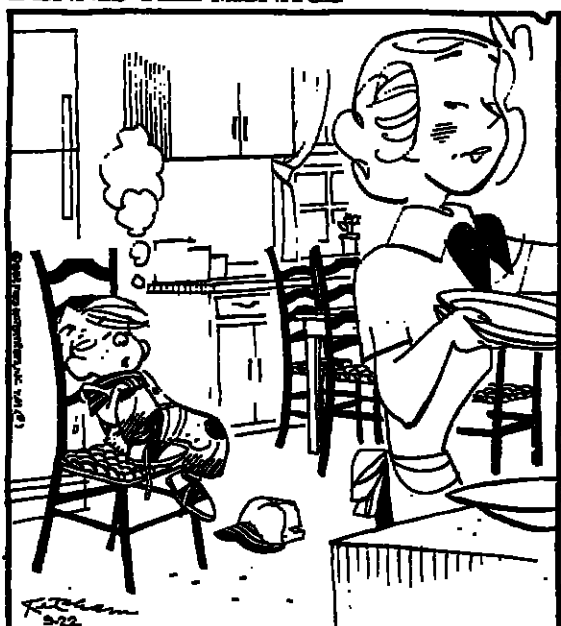
CROSSWORD



- ACROSS**
- 1 Flat from hogs
 - 2 Delectable
 - 3 Melodic subject
 - 13 Not sotto voce
 - 15 He wrote "My Enemy's Enemy"
 - 16 Calpurnia, to Caesar
 - 17 A concern of Mehta
 - 18 Marceau's forte
 - 26 Emulate
 - 28 Like a confusing report
 - 29 Father of Caliban
 - 34 "The" of Hoffmann
 - 35 Pinnacles
 - 36 Home of Yeats
 - 38 River of NW Russia
 - 31 Buffalo's county
 - 33 Having sharpness
 - 37 Miscellaneous
 - 38 Of ecological stages
 - 40 Wrath atop Lancelot
 - 41 Shrugger in a Rand title
 - 43 Seat of Israel
 - 44 Discerning
- DOWN**
- 1 Not punctual
 - 2 Ruffian in "A Clockwork Orange"
 - 3 Trip gally
 - 4 Double-decker
 - 5 U.S. jitters into the Atlantic
 - 6 Dr. group
 - 7 Circus area
 - 8 Squire's place
 - 9 Dilapidated abode in a pop song
 - 10 What Iran's shah became in 1979
 - 11 Perisian kids
 - 12 Cézanne's "Boy in Vest"
 - 14 Lorna of fiction
 - 19 What a politico loves to do
 - 21 Ramblers
 - 25 Looped vase handle
 - 26 T-rapper's trophy
 - 27 Persecuted
 - 28 Homer's coconuts
 - 29 Eract
 - 32 Authentic
 - 34 Grating
 - 35 Besides
 - 36 Judge
 - 38 Admit
 - 42 Foal's fathers
 - 46 Primary
 - 48 Capital of Ghana
 - 49 Expiate
 - 50 A Mead subject
 - 51 One of the Maymays
 - 52 Wooden nickel, e.g.
 - 53 State flower of Utah
 - 55 N. African wild sheep
 - 56 Grand Banks gear
 - 57 Three in Toledo
 - 58 Brazilian macaw

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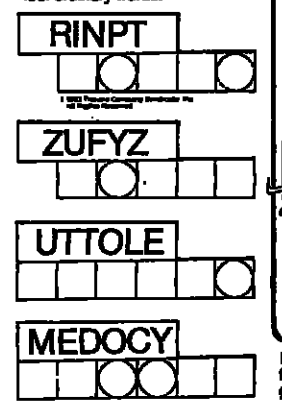
DENNIS THE MENACE



"HOW COME HAVING FUN MAKES YA SO TIRED?"

JUMBLE

Unscramble four jumbles, one letter to each square, to form four ordinary words.



Print answer here: A

Yesterday's Jumble: COACH POKER STYLUS HERBY

Answer: What you might find in a book case

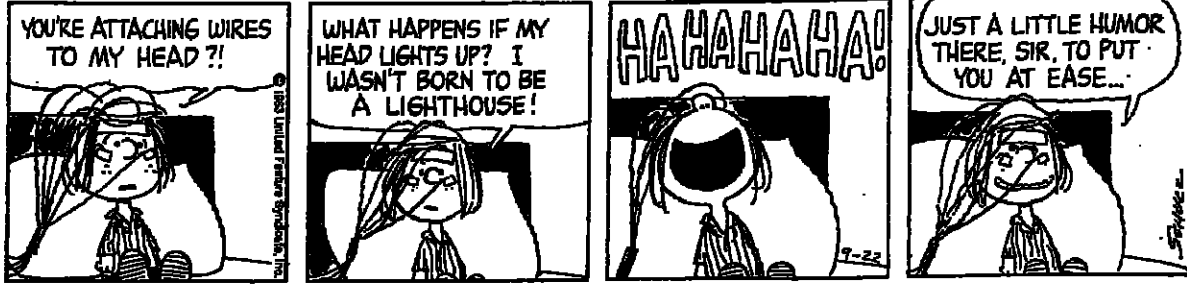
WEATHER

EUROPE				ASIA			
	HIGH	LOW			HIGH	LOW	
Algeria	24	17	63 F	Bangkok	31	25	77 F
Amsterdam	19	14	56 F	Beijing	15	9	55 F
Athens	25	17	63 F	Hong Kong	30	22	86 F
Batavia	24	17	63 F	Kobe	29	24	84 F
Bombay	31	25	77 F	Manila	30	24	86 F
Buenos Aires	15	10	50 F	Seoul	24	18	75 F
Buenos Aires	15	10	50 F	Singapore	28	22	82 F
Buenos Aires	15	10	50 F	Taipei	31	25	88 F
Buenos Aires	15	10	50 F	Tokyo	24	18	75 F
Buenos Aires	15	10	50 F				

MIDDLE EAST

	HIGH	LOW	
Amman	30	16	54 F
Bahia	31	25	77 F
Bombay	31	25	77 F
Buenos Aires	15	10	50 F
Buenos Aires	15	10	50 F
Buenos Aires	15	10	50 F

PEANUTS



BLONDIE



BEETLE BAILEY



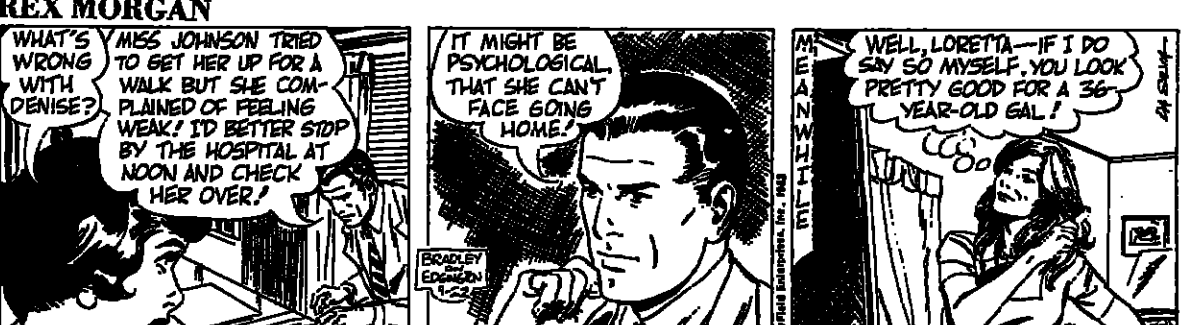
ANDY CAPP



WIZARD OF ID



REX MORGAN



GARFIELD



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Sept. 21

Amsterdam

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BOOKS

EISENHOWER: Volume I: Soldier, General of the Army, President-Elect, 1890-1952

By Stephen E. Ambrose. 637 pp. \$22.95. Simon and Schuster, 1230 Ave. of the Americas, New York, N.Y. 10020.

Reviewed by William S. McFeely

"YOU have made history, great history for the good of mankind," wrote George C. Marshall, "and," he continued, "you have stood for all we hope for and admire in an officer of the United States Army." When Stephen E. Ambrose pronounces "earned" this famous tribute to Dwight D. Eisenhower, one senses that he, like Marshall, put even greater store in the second half of the sentence than in the first. Eisenhower, the soldier; and Ambrose, a scholar of soldiering, are splendidly matched; this strong biography belongs to that wing of the genre in which the subject, by no means uncritically rendered, represents all that the author most honors.

And yet, in this account of one of America's most famous soldiers in the years before he resigned from the Army, one is struck by how little soldiering Eisenhower ever did. Although commissioned in 1915, after four years at West Point, he did not make it to France in World War I. After serving time in the '20s, he was forced to be Douglas MacArthur's lackey in the disgraceful attack on the Bonus Marchers' camp and then at the imperial outpost in Manila. Concealing his contempt for his commander, Eisenhower learned from MacArthur the need to be political and also precisely how not to go about that politicking.

When World War II presented immense opportunities and responsibilities, he swiftly vaulted past any but contrived links to the battlefield and the men who fought on them. He did not know, first hand, the boredom and exhilaration, the fear and affection experienced by soldiers fighting.

Comparisons are frequently made of Eisenhower's career with that of another West Point war hero who was the other Republican to hold two full terms as president, Ulysses S. Grant. The familiar rendition casts the two as men of action who were articulate about war and not about peace, and who were as inept as presidents as they were supremely confident as generals. Beyond obvious parallels, the two men were, however, greatly different. There was in Eisenhower's patiently conducted career none of the failure and despair of Grant's. And what was more, there were no youthful dashes on horseback through enemy fire in Mexico, nor any stepping into battle as the

colonel of a regiment of raw recruits in the Missouri countryside.

Like Eisenhower, Grant, with a strong sense of the whole, commanded a huge network of armies over a vast area, but he was a war of rifles and of Americans. Eisenhower, in contrast, was the entrepreneur of a great, technologically sophisticated multinational enterprise. Ambrose's study makes it clear that largely he left the fighting to others, including most successfully, Omar N. Bradley and George S. Patton Jr., and spent his own time conducting diplomatic salesmanship with such tough and exceedingly diverse customers as Winston Churchill, Franklin D. Roosevelt, Charles de Gaulle, and their contentious deputies. In his conduct of the European war, one of Eisenhower's many major contributions was to remember that Germany was the enemy. He had no appetite for converting World War II into World War III with judges against the Russians to the east, and he restrained soldiers, like General Patton, who had.

Eisenhower was less like the soldier-presidents of the 19th century than like the corporate chief executive officers of the 20th. When the war was over, no one should have been surprised that it was with these men that he chose to relax — and to win the presidency. Even Ambrose feels the need to explain the compatibility of the general and businessman (he wonders which side was "awestruck") when, in fact, they were birds of a feather: "men who had proved themselves; who thought big, who handled big problems successfully, who knew how to organize and produce, who exuded self-confidence." And, Ambrose's fine chronicle of the able World War II and NATO commander documents that assessment and his second volume on the presidential years promises to do much to buttress the concept of the more effective "new Eisenhower," but the more the author tells us, the more we are reminded that Truman changed his mind.

On June 19, 1945, Harry Truman wrote to Boss that "Eisenhower's party was a grand success. I pinned a medal on him in the afternoon. He is a nice fellow and a good man. He's done a whole lot of good. They are running him for President, which is O.K. with me. I'd turn it over to him now if I could." Stephen Ambrose's fine chronicle of the able World War II and NATO commander documents that assessment and his second volume on the presidential years promises to do much to buttress the concept of the more effective "new Eisenhower," but the more the author tells us, the more we are reminded that Truman changed his mind.

William S. McFeely, author of "Grant: A Biography" and "Roosevelt and the Professor of History at Mount Holyoke College," wrote this review for The Washington Post.

BRIDGE

By Alan Truscott

THE rubber bridge player who thinks about the opening lead is sometimes jocularly urged to "lead the one nearest your thumb." Unless you have a highly intuitive thumb it is wise to use your head instead, even if it means taking a little time.

Few opening leads in recent years have been quite as portentous as the one on the diagrammed deal.

The opening bid of one no-trump was the weak variety and North jumped to three diamonds with a hand that was even weaker in high cards but distinctly stronger in distribution.

East tried three no-trump, hoping that his club suit would run and that his partner could stop the diamonds. He was wrong in the second part, but the fates would have come to the rescue in the shape of a diamond block.

With this aid from the fates and a winning spade finesse, West would have exactly

three no-trump. But it was South's turn to bid, and he, not unreasonably, tried four spades. West doubled with some confidence, and everything now hinged on the opening lead. A diamond was clearly unwise and would have been fatal. The spade ace was a possibility, but if he had made that selection, West would have had to judge the need to continue trumps at the second trick — a difficult and potentially disastrous decision.

West decided to lead one of the unbid suits. But which? The club ace might seem obvious, in order to inspect the dummy, but there was a risk.

Both opponents had shown highly distributional hands and there was likely to be a void somewhere. East would have shown a long heart suit, but was very likely to have club length when he chose to bid, three no-trump rather than double three diamonds.

In the end, West made the winning choice of a heart. His partner won and shifted to a trump. Two rounds of trumps

left the dummy in a useless condition. When the smoke had cleared, South had scored five trump tricks and a trick in each red suit for down 800.

If West had led the club ace, South would have ruffed in dummy, led to the diamond ace, ruffed another club and thrown his last club on the diamond king.

In the replay, a much quieter auction led North playing in three diamonds and making an overtrick.

NORTH
♠ 7
♥ 10 8 7
♦ K Q J 10 9 8 4 3
♣ K Q J 10 9 8 4 3
EAST
♠ A Q J
♥ K 10 9 8 7 6 5 4 3
♦ A 2
♣ A 2
SOUTH
♠ A Q J
♥ K 10 9 8 7 6 5 4 3
♦ A 2
♣ A 2
Both sides were vulnerable. The bidding:
West North East South
1NT 3♦ 1NT 4♦
Pass Pass Pass Pass
West led the heart two.

Canadian Stock Markets

Prices in Canadian cents unless marked \$

Sept. 20

Toronto

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Sept. 21

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ART BUCHWALD

How to Keep the Peace

WASHINGTON — The most important thing to do before you send men into combat is explain to them why you want them there.

I would hate to be the briefing officer on a U.S. Marine amphibious ship explaining to the troops why they are being sent into Beirut.



Buchwald

"All right, men, let's knock it off. I am here to explain your mission for the next few months. You are being sent into Beirut as a peacekeeping mission. Any questions?"

"Yes, sir. What's a peacekeeping mission?"

"It is a mission by which a neutral power stations troops in a volatile area to keep the various factions from killing each other until a government can become strong enough to defend itself. Now you people will take up positions around the Beirut airport down here on the low ground. Up here in the hills overlooking the airport are members of the Druze sect armed with heavy artillery, mortars and snipers. Over here are the Christian Phalangist militia, also heavily armed. The Christians are also in this part of Beirut next to the airport, and Moslem forces, not to be confused with the Druze, have control of this part of Beirut here. Intelligence also indicates there are a thousand PLO troops who returned to the area since Israel pulled out of the city to this position down here. Is that clear?"

"Sir, are we supposed to keep the peace between all of them?"

"That's your mission. But you

can only do this by remaining in the Beirut airport area."

"If they all have the high ground and we have the low ground, how do we keep the peace?"

"You will not be alone. We have a large naval task force off the beaches that will cover you."

"Cover us from what?"

"Artillery and mortar fire, from the hills, as well as snipers in the city. We now have the authority to use airpower when you become a target of one of the dissident factions."

"You mean we're sitting ducks?"

"It means you will dig in as deep as you can until President Reagan, your commander in chief, can arrange a cease-fire between the Druze, the Christian Phalangists, the present Gennep government army and the Syrians."

"Why are we called a peacekeeping force if we can't use our guns to keep the peace?"

"Because, since you are designated as such, the president has the authority to keep you there as long as he deems necessary. If you are sent in as a combat force, the War Powers Act has to be put into effect, and then Congress may dictate foreign policy. Technically, the U.S. Marines have been engaged in 'hostilities,' but the White House cannot admit that without giving up the president's executive powers. Is that clear?"

"No, sir."

"Good. We will continue. As a peacekeeping force your mission is not to take sides in a family dispute. What is going on now is that the Druze, Moslems and Christians are settling old scores that go back hundreds of years. They have committed atrocities against each other for centuries. If Washington can get them all to sit around a table and forget the past, we can bring peace to the Middle East."

"And if Washington can't, we get our butts shot off."

"I can assure you Washington has no intention of your getting your butts shot off. If we wanted to we could waste Lebanon in 10 minutes. Okay, you know all you need to do is to what your mission is. Now remember, men, hold your fire. As a peacekeeping force you can't afford to get mad at anybody."

When It's Tom Mix Time at DuBois

By Henry Mitchell

Washington Post Service

DUBOIS, Pennsylvania — The United States is in one hell of a state if you have to explain who Tom Mix was, and this small city out from Pittsburgh hopes that a few more years of annual Tom Mix Festivals will illuminate even the dimmest corners of the United States.

Not to split hairs, Tom Mix was the most radiant of movie cowboys, with the cleanest western jaw and the steadiest eye and hand, to say nothing of his horse that could stomp bad guys and could swim into a raging torrent to fetch back a baby in a basket headed for the falls.

"I used to get into fights about him," said Dr. Richard F. Seiverling of Hershey. "I was an orphan and maybe Tom Mix in those Saturday afternoon serials was a surrogate father or something. I couldn't have found a better. I didn't have a horse till I was 45 years old, but I had a stick and galloped around with it playing Tom Mix and I wouldn't let anybody else say a word against him."

There is no telling how many million inebriated persons around the world still know the Tom Mix club password (from radio days), which begins Ral and the other kid says Ston, a delicate allusion to Ralston, the cereal company that sponsored him.

Until fairly recently Seiverling was like all the other Tom Mix fans, minding his business at his job with the Pennsylvania education department and dandling his grandchildren, but then came the year 1980, centennial of Tom Mix's birth, and it was too much. Like his hero, Seiverling does not use bad words but he knew that "come hell or high water" there was going to be a Tom Mix celebration that year, and there was, and there has been ever since.

The town takes to the streets, jeans and western garb, plus the largest display of great-aunts and hearty bakers of funnel cakes this side of Dutch Heaven. The center of the hubbub on Brady Street, the main drag, is the Paradise Gulch Saloon. "Don't you go in there," roared a mother to a knee-high investigator heading for the



Tom and partner in 1921.

den of iniquity. "You stay right here with Grandpa."

Outside the streets were solid with impromptu stands selling Polish and Italian sausages. "Don't Finch the Ping Pong Balls," said one sign, and "No Loitering, No Pets" said a rather unfriendly sign at the General Pershing Hotel, where a rare example of violence had occurred Thursday night right there on Brady Street where the bar is graced with an 1880-type curved bay window with stained glass on top and clear glass beneath. "This young fella got mad because they wouldn't serve him—oh, yeah, he was good and drunk, that's why—and he busted that big window with his fist, which is why it's all plywood now," said a girl in the hotel.

Next door is the Playhouse where you could see William S. Hart in "Tumbleweed," and while it was okay (the hero held the villain under water in the town horse-trough until he apologized

to a little boy and his dog, both of whom he had treated rudely), it was the Tom Mix films everybody really liked.

"Death of a Traitor" was about this Indian who had left his tribe because these white guys were using him, see, to get control of tribal land, and Tom Mix was on to them. The Indian—well, you had to be there. This film, like most of the roughly 370 Tom Mix made between 1910 and 1935, showed the cowboy tough, generous to a fault, a straight shooter in all respects.

Lord, yes, Tom was absolutely open, absolutely clean, and a good-looking son of a gun with black hair. He did all his own stunts. He rode old Tony, his horse, across a 30-foot wide canyon in one movie ("Three Jumps Ahead" in 1923) and a cliff fell on both of them in another movie when dynamite went off too soon. Tony was a glorious horse, but he did keep falling on top of Tom Mix in real life, and the cowboy

had so many broken bones (his shoulders were wired together for a whole year after one accident) that you could acquire a drawing showing where all his wounds were, each one numbered, with legends explaining how each one happened.

For all his cleanness on the screen—never smoke or drink or used a bad word—Tom Mix had human foibles. When he died (his yellow Cord failed to take a detour on the road at Florence, Arizona, in 1940, and a piece of luggage sailed up and broke his neck) the U.S. Army refused to provide a flag for his coffin since Tom Mix had been a deserter.

A harsh word, Tom Mix was in the Army about four years at the turn of the century and everything was okay till he fell in love with and married a schoolteacher. Some say (and all true believers know) she gave him a hard time and besides her father didn't think Tom Mix was good enough for her, and what with all these pressures Tom Mix did sort of go AWOL and didn't return.

He had five wives in all. It wasn't Tom's fault, really. Women couldn't leave him alone and that is God's truth.

At his peak, a peak that went on for years and years, since Tom Mix was still making movies when he was nearly 60, and still using no stunt men, he made \$17,000 a week, the highest paid star of the 1920s, and the savior of Fox (later 20th Century-Fox), which every body in Hollywood called Mixville.

Tony, the Wonder Horse, came to be known as Tony Senior. There were two other Tonys, one of them a white Arabian, who was all right, but Tony (who was put out to pasture and who died at the age of 33, two years to the day after his master) was something else. Chestnut sorrel with white socks and a frontal blaze ending at the top in a great distinctive diamond shape.

The parade got going an hour late because some of the bands couldn't get there on time.

A wonderful Tom Mix look-alike headed it on his horse, followed by Slim Binkley, who for some years was Tom Mix's valet. Slim's horse made an astonishing-

ly impressive pile of droppings in front of the Courier Express building with its Romanesque sandstone arches, and no matter what they say about American youth a vast number of trombone players in a number of bands managed not to step in it, without losing beat or general snappiness of march.

"This gets tiresome," said Essie Quinn, one of dozens of townspeople who work all year on the festival, as she and a friend lugged a nail keg around for donations to meet the expense of getting the school bands to town. These ladies were dressed in busup, and when not marching about with the keg, they usefully scooped up after horses.

Tom Mix's daddy ran the stables for old Mr. DuBois, who was the big man in the lumbering operations around here, and Tom was born just up the road at Mix's Run, named for Amos Mix, his great-grandfather.

Over coffee Richard Seiverling said it used to be off Tom's mother when he claimed his mother was Cherokee Indian.

"Didn't have a drop of Cherokee in him. His daddy was English, his mother was Dutch German. And Tom did exaggerate. All that bull about the Boer War and riding up San Juan Hill."

The lights of the Playhouse dimmed. Tom Mix in "The Miracle Rider." Three boys, 5 to 8 years old, raced up and down the aisles every nine minutes. "Don't you remember that?" an old-timer said later. "You got so excited you had to go, bitterly begrudging every minute."

The sound left much to be desired, as if the track were on an old record and it took a while to grind it up to full speed. But the theater was utterly perfumed with popcorn. You got extra butter free. Coffee was 15 cents.

Never mind the AWOL and the five wives and a period of drinking too much and the tax evasion case (they sent Tom's accountant to jail) and a few fibs (he swore he was born in El Paso) and all that. Life is one thing, art another. You don't hear people yammering about Goethe because he married his cook, or Marlowe because he died in a tavern brawl. What's left, at the last, is the readiness, the sparkling bravery, the image—the illusion, if you insist—of the best boy there ever was in all America.

PEOPLE

Finder, 16, Is Allowed To Keep Lost Jewels

A 16-year-old orphan who stumbled on a cache of diamonds, gold watches and rings valued at \$13 million says he plans to buy a "dream house" for his aunt and a car for himself now that he has been told he can keep the loot. Eric DeWilde found the 69 pieces of jewelry six months ago in a plastic bag lying beside some railroad tracks near his home in Los Angeles. The police were required by law to hold the valuables, including a 15-carat diamond valued at \$100,000—for 180 days to give the owner a chance to claim it. DeWilde went to the police station Tuesday with his aunt and legal guardian, Eva Trost, his attorney, Charles Morgan of North Miami Beach, and officials of the Northern Trust Bank of Florida, guardian of DeWilde's property until he turns 18, to claim his find.

James Baldwin, recovering from a minor heart attack, could return to his teaching duties as a visiting professor in western Massachusetts as early as next week, school officials say. The writer was reported in satisfactory condition at Cooley-Dickenson Hospital in Northampton, Massachusetts.

Eric Clapton, Bill Wyman, Jimmy Page, Stevie Nicks and other rock stars staged a three-hour super-session in London's Royal Albert Hall to help out an old pal crippled by a muscular disease and thousands of his fellow sufferers. The sold-out concert was the first of two charity shows that are expected to raise \$1 million (\$1.5 million) for victims of multiple sclerosis and charities patronized by Prince Charles, heir to the British throne. Tuesday's show was a favor to Ronnie Lane, 38, longtime guitar player with Rod Stewart's band, The Faces, who was sidelined by multiple sclerosis three years ago. Another show Wednesday was for Prince Charles's trust fund for deprived children.

Gene Kelly will host the Royal Variety Show for Queen Elizabeth II Nov. 7 at London's Theatre Royal, impresario Louis Benjamin announced. The \$500,000 extravaganza will also feature Twiggy and her dancing partner, Tommy Tune, who will leave their Broadway hit "My One and Only" for the night to fly to London for the show.

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